

# **SAKATA INX CORPORATION**

Consolidated Financial Statements

As of December 31, 2019 and 2018



## **Independent Auditor's Report**

To the Board of Directors of

SAKATA INX CORPORATION:

We have audited the accompanying consolidated financial statements of SAKATA INX CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated income statements, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SAKATA INX CORPORATION and its consolidated subsidiaries as at December 31, 2019 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

*KPMG AZSA LLC*

KPMG AZSA LLC  
July 31, 2020  
Osaka, Japan

**SAKATA INX CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**Years ended December 31, 2019 and 2018**

		<i>Millions of yen</i>	
		2019	2018
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and deposits (Note 8) .....	¥	10,122	¥      7,194
Notes and accounts receivable - trade (Notes 7, 8 and 12):			
Unconsolidated subsidiaries and affiliates .....		1,978	2,876
Other .....		43,851	43,631
		45,829	46,507
Inventories (Note 10) .....		21,683	20,159
Other .....		1,943	2,378
Allowance for doubtful accounts .....		(513)	(453)
Total current assets .....		79,064	75,785
 <b>Property, plant and equipment (Notes 6, 12 and 13):</b>			
Buildings and structures .....		34,395	32,990
Machinery, equipment and vehicles .....		47,387	45,590
Land .....		9,061	9,005
Lease assets (Note 3) .....		3,122	1,460
Construction in progress .....		1,684	913
Other (Note 3) .....		2,931	2,761
		98,580	92,719
Accumulated depreciation .....		(57,406)	(53,787)
Net property, plant and equipment .....		41,174	38,932
 <b>Investments and other assets:</b>			
Investments (Notes 7, 8, 9 and 12):			
Unconsolidated subsidiaries and affiliates .....		14,289	16,280
Other .....		11,022	10,224
		25,311	26,504
Long-term loans receivable .....		58	1,491
Deferred tax assets (Notes 5 and 15) .....		340	273
Net defined benefit asset (Note 14) .....		168	-
Other (Note 3) .....		1,628	2,182
Allowance for doubtful accounts .....		(534)	(262)
Total investments and other assets .....		26,971	30,188
 <b>Intangible assets:</b>			
Goodwill .....		738	-
Other .....		345	590
Total intangible assets .....		1,083	590
	¥	148,292	¥      145,495

*The accompanying notes are an integral part of these statements.*

		<i>Millions of yen</i>	
		2019	2018
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Notes and accounts payable - trade (Notes 7, 8 and 12):			
Unconsolidated subsidiaries and affiliates	¥	6	¥ 6
Electronically recorded obligations - operating		13,009	13,815
Other		17,626	17,983
		30,641	31,804
Short-term loans payable (Notes 8, 11 and 12)		6,011	9,060
Current portion of long-term loans payable (Notes 8, 11 and 12)		2,160	1,358
Lease obligations (Note 3)		250	225
Accrued expenses		3,639	3,182
Income taxes payable		567	180
Provision for bonuses		527	554
Other (Note 12)		2,522	2,870
Total current liabilities		46,317	49,233
<b>Non-current liabilities:</b>			
Long-term loans payable (Notes 8, 11, and 12)		8,059	7,332
Lease obligations (Note 3)		505	349
Deferred tax liabilities (Notes 5 and 15)		4,504	3,888
Net defined benefit liability (Note 14)		4,770	4,968
Asset retirement obligations		70	73
Other (Note 12)		2,627	2,254
Total non-current liabilities		20,535	18,864
Total liabilities	¥	66,852	¥ 68,097
<b>Contingent liabilities (Note 16)</b>			
<b>Net Assets (Note 25):</b>			
<b>Shareholders' equity</b>			
Capital stock:			
Authorized – 144,000,000 shares			
Issued – 62,601,161 shares	¥	7,473	¥ 7,473
Capital surplus		5,673	5,673
Retained earnings		70,397	68,430
Treasury shares, at cost – 4,202,237 shares in December 2019 and 4,201,943 shares in December 2018		(4,047)	(4,047)
Total shareholders' equity		79,496	77,529
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities		3,329	2,714
Deferred gains or losses on hedges		0	5
Foreign currency translation adjustment		(5,050)	(4,550)
Remeasurements of defined benefit plans		(1,079)	(1,390)
Total accumulated other comprehensive income		(2,800)	(3,221)
Non-controlling interests		4,744	3,090
Total net assets		81,440	77,398
	¥	148,292	¥ 145,495

*The accompanying notes are an integral part of these statements.*

**SAKATA INX CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**Years ended December 31, 2019 and 2018**

	<i>Millions of yen</i>	
	2019	2018
<b>Net sales</b> .....	¥ 167,238	¥ 162,056
<b>Cost of sales</b> .....	131,508	128,824
<b>Selling, general and administrative expenses (Note 17)</b> .....	29,504	28,120
Operating income.....	6,226	5,112
<b>Other income (expenses):</b>		
Interest and dividend income.....	408	370
Real estate rent .....	194	204
Equity in earnings of affiliates .....	742	1,573
Interest expenses .....	(305)	(267)
Foreign exchange gains and losses .....	(109)	(240)
Gain on sales of investment securities (Notes 8 and 9) .....	211	-
Subsidy income .....	100	100
Insurance income .....	-	186
Impairment loss (Notes 18).....	(190)	-
Loss on retirement of property, plant and equipment (Note 19).....	(40)	(71)
Loss on valuation of investment securities (Notes 8 and 9) .....	(2)	-
Restructuring loss (Notes 20) .....	(216)	-
Other, net .....	163	158
Income before income taxes .....	7,182	7,125
<b>Income taxes:</b>		
Current .....	2,040	1,731
Deferred (Note 15) .....	387	424
	2,427	2,155
<b>Net income</b> .....	4,755	4,970
<b>Net income attributable to non-controlling interests</b> .....	(640)	(277)
Net income attributable to owners of parent .....	¥ 4,115	¥ 4,693
	<i>Yen</i>	
Net income per share of capital stock (Note 27) .....	¥ 70.46	¥ 80.36
Cash dividends per share applicable to the year (Note 27).....	¥ 30.00	¥ 30.00

*The accompanying notes are an integral part of these statements.*

**SAKATA INX CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**Years ended December 31, 2019 and 2018**

	<i>Millions of yen</i>	
	2019	2018
<b>Net income</b> .....	¥ 4,755	¥ 4,970
<b>Other comprehensive income (Note 21):</b>		
Valuation difference on available-for-sale securities.....	647	(2,136)
Deferred gains or losses on hedges.....	-	0
Foreign currency translation adjustment.....	(308)	(1,595)
Remeasurements of defined benefit plans, net of tax .....	288	64
Share of other comprehensive income of affiliates accounted for using equity method .....	(42)	(546)
Total other comprehensive income .....	585	(4,213)
<b>Comprehensive income</b> .....	<u>¥ 5,340</u>	<u>¥ 757</u>
<b>Comprehensive income attributable to:</b>		
Owners of parent.....	¥ 4,681	¥ 560
Non-controlling interests .....	¥ 659	¥ 197

*The accompanying notes are an integral part of these statements.*

**SAKATA INX CORPORATION**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**  
**Year ended December 31, 2019**

	<i>Number of shares of common stock</i>	<i>Millions of yen</i>				
		<i>Capital stock</i>	<i>Capital surplus</i>	<i>Retained earnings</i>	<i>Treasury shares</i>	<i>Total shareholders' equity</i>
<b>Balance at the beginning of current period</b> .....	62,601,161	¥ 7,473	¥ 5,673	¥ 68,430	¥ (4,047)	¥ 77,529
Dividends of surplus (¥30.0 per share).....	-	-	-	(1,752)	-	(1,752)
Net income attributable to owners of parent.....	-	-	-	4,115	-	4,115
Purchase of treasury shares .....	-	-	-	-	(0)	(0)
Change in scope of consolidation .....	-	-	-	(396)	-	(396)
Net changes in items other than shareholders' equity.....	-	-	-	-	-	-
Total changes in items during the period.....	-	-	-	1,967	(0)	1,967
<b>Balance at the end of current period</b> .....	<u>62,601,161</u>	<u>¥ 7,473</u>	<u>¥ 5,673</u>	<u>¥ 70,397</u>	<u>¥ (4,047)</u>	<u>¥ 79,496</u>

	<i>Millions of yen</i>						
	<i>Valuation difference on available-for- sale securities</i>	<i>Deferred gains or losses on hedges</i>	<i>Foreign currency translation adjustment</i>	<i>Remeasurements of defined benefit plans</i>	<i>Total accumulated other comprehensive income</i>	<i>Non-controlling interests</i>	<i>Total net assets</i>
<b>Balance at the beginning of current period</b> .....	¥ 2,714	¥ 5	¥ (4,550)	¥ (1,390)	¥ (3,221)	¥ 3,090	¥ 77,398
Dividends of surplus (¥30.0 per share).....	-	-	-	-	-	-	(1,752)
Net income attributable to owners of parent.....	-	-	-	-	-	-	4,115
Purchase of treasury shares .....	-	-	-	-	-	-	(0)
Change in scope of consolidation .....	-	-	-	-	-	-	(396)
Net changes in items other than shareholders' equity.....	615	(5)	(500)	311	421	1,654	2,075
Total changes in items during the period.....	615	(5)	(500)	311	421	1,654	4,042
<b>Balance at the end of current period</b> .....	<u>¥ 3,329</u>	<u>¥ 0</u>	<u>¥ (5,050)</u>	<u>¥ (1,079)</u>	<u>¥ (2,800)</u>	<u>¥ 4,744</u>	<u>¥ 81,440</u>

*The accompanying notes are an integral part of these statements.*

**SAKATA INX CORPORATION**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**  
**Year ended December 31, 2018**

	<i>Number of shares of common stock</i>	<i>Millions of yen</i>				
		<i>Capital stock</i>	<i>Capital surplus</i>	<i>Retained earnings</i>	<i>Treasury shares</i>	<i>Total shareholders' equity</i>
<b>Balance at the beginning of current period</b> .....	62,601,161	¥ 7,473	¥ 5,673	¥ 65,638	¥ (4,046)	¥ 74,738
Dividends of surplus (¥31.0 per share).....	-	-	-	(1,810)	-	(1,810)
Net income attributable to owners of parent.....	-	-	-	4,693	-	4,693
Purchase of treasury shares .....	-	-	-	-	(1)	(1)
Change in scope of consolidation in affiliates accounted for using equity method .....	-	-	-	(91)	-	(91)
Net changes in items other than shareholders' equity .....	-	-	-	-	-	-
Total changes in items during the period.....	-	-	-	2,792	(1)	2,791
<b>Balance at the end of current period</b> .....	62,601,161	¥ 7,473	¥ 5,673	¥ 68,430	¥ (4,047)	¥ 77,529

	<i>Millions of yen</i>						
	<i>Valuation difference on available-for- sale securities</i>	<i>Deferred gains or losses on hedges</i>	<i>Foreign currency translation adjustment</i>	<i>Remeasurements of defined benefit plans</i>	<i>Total accumulated other comprehensive income</i>	<i>Non-controlling interests</i>	<i>Total net assets</i>
<b>Balance at the beginning of current period</b> .....	¥ 4,957	¥ 2	¥ (2,612)	¥ (1,435)	¥ 912	¥ 3,117	¥ 78,767
Dividends of surplus (¥31.0 per share).....	-	-	-	-	-	-	(1,810)
Net income attributable to owners of parent.....	-	-	-	-	-	-	4,693
Purchase of treasury shares .....	-	-	-	-	-	-	(1)
Change in scope of consolidation in affiliates accounted for using equity method .....	-	-	-	-	-	-	(91)
Net changes in items other than shareholders' equity.....	(2,243)	3	(1,938)	45	(4,133)	(27)	(4,160)
Total changes in items during the period.....	(2,243)	3	(1,938)	45	(4,133)	(27)	(1,369)
<b>Balance at the end of current period</b> .....	¥ 2,714	¥ 5	¥ (4,550)	¥ (1,390)	¥ (3,221)	¥ 3,090	¥ 77,398

*The accompanying notes are an integral part of these statements.*



**SAKATA INX CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years ended December 31, 2019 and 2018**

	<i>Millions of yen</i>	
	2019	2018
<b>Cash flows from operating activities:</b>		
Income before income taxes.....	¥ 7,182	¥ 7,125
Depreciation and amortization.....	4,341	4,037
Amortization of goodwill.....	108	-
Increase (decrease) in allowance for doubtful accounts.....	268	(115)
Increase (decrease) in net defined benefit liability.....	180	202
Increase (decrease) in provision for bonuses.....	(25)	(89)
Interest and dividend income.....	(408)	(370)
Interest expenses.....	305	267
Equity in (earnings) losses of affiliates.....	(742)	(1,573)
Loss on retirement of property, plant and equipment.....	40	71
Loss (gain) on sales of investment securities.....	(211)	-
Loss (gain) on valuation of investment securities.....	2	-
Subsidy income.....	(100)	(100)
Insurance income.....	-	(186)
Impairment loss.....	190	-
Restructuring loss.....	216	-
Decrease (increase) in notes and accounts receivable - trade.....	1,611	(2,161)
Decrease (increase) in inventories.....	(469)	(1,940)
Increase (decrease) in notes and accounts payable - trade, including electronically recorded obligations - operating.....	(1,884)	2,794
Other, net.....	71	(738)
Subtotal.....	10,675	7,224
Interest and dividend income received.....	708	766
Interest expenses paid.....	(305)	(264)
Proceeds from insurance income.....	-	238
Proceeds from subsidy income.....	100	100
Income taxes paid.....	(1,358)	(2,824)
Net cash provided by (used in) operating activities.....	9,820	5,240
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment.....	(5,095)	(6,267)
Proceeds from sales of property, plant and equipment.....	22	57
Purchase of investment securities.....	(131)	(190)
Proceeds from sales of investment securities.....	481	1
Payments of loans receivable.....	(55)	(602)
Collection of loans receivable.....	45	57
Other, net.....	(374)	(335)
Net cash provided by (used in) investing activities.....	(5,107)	(7,279)

*The accompanying notes are an integral part of these statements.*

	<i>Millions of yen</i>	
	2019	2018
<b>Cash flows from financing activities:</b>		
Net increase (decrease) in short-term loans payable .....	(3,137)	3,727
Proceeds from long-term loans payable .....	3,098	2,601
Repayments of long-term loans payable .....	(1,522)	(4,153)
Purchase of treasury shares .....	-	(1)
Cash dividends paid .....	(1,752)	(1,810)
Dividends paid to non-controlling interests .....	(168)	(223)
Other, net .....	(340)	(264)
Net cash provided by (used in) financing activities .....	(3,821)	(123)
<b>Effect of exchange rate change on cash and cash equivalents .....</b>	<b>254</b>	<b>(401)</b>
<b>Net increase (decrease) in cash and cash equivalents .....</b>	<b>1,146</b>	<b>(2,563)</b>
<b>Cash and cash equivalents at beginning of period .....</b>	<b>6,788</b>	<b>9,351</b>
<b>Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation .....</b>	<b>1,427</b>	<b>-</b>
<b>Cash and cash equivalents at end of period (Note 22) .....</b>	<b>¥ 9,361</b>	<b>¥ 6,788</b>

*The accompanying notes are an integral part of these statements.*

# SAKATA INX CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of SAKATA INX CORPORATION (the “Company”) and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with generally accepted accounting principles in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards (IFRS).

The accounts of the Company’s consolidated foreign subsidiaries are based on IFRS or generally accepted accounting principles in the United States of America (U.S. GAAP). The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions and the inclusion of consolidated statements of shareholders’ equity from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

### 2. Significant Accounting Policies

#### *Consolidation*

The consolidated financial statements include the accounts of the Company and its twenty-seven subsidiaries (twenty-three in 2018). The principal subsidiaries of the Company were THE INX GROUP LIMITED, INX International Ink Co., SAKATA INX (INDIA) PRIVATE LIMITED and P.T. SAKATA INX INDONESIA. Creative Industria e Comercio Ltda. and other two companies that were unconsolidated subsidiaries in 2018 were included in the scope of consolidation due to an increase in materiality, and ETERNAL SAKATA INX CO., LTD. to that the equity method was applied in 2018 was included due to the increase in its significance to the company. All significant intercompany transactions and accounts have been eliminated.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary. Differences between the cost of investments in consolidated subsidiaries and the equity in the net assets at the date of acquisition are amortized over a period that is within twenty years.

The equity method was applied to four affiliates (six in 2018). The principal affiliate of the Company was SIIX Corporation. ETERNAL SAKATA INX CO., LTD. was excluded from the scope of application of the equity method due to consolidation and one other company was excluded due to its liquidation.

The consolidated financial statements did not include the accounts of three unconsolidated subsidiaries in 2018, and the equity method was not applied to these subsidiaries because they were immaterial. The principal unconsolidated subsidiary was Creative Industria e Comercio Ltda.

#### *Securities*

The Company and its consolidated subsidiaries (the “Companies”) classify securities as (a) securities held for trading purposes (“trading securities”), (b) debt securities intended to be held to maturity (“held-to-maturity debt securities”), (c) equity securities issued by subsidiaries and affiliated companies and (d) all other securities that are not classified in any of the above categories (“available-for-sale securities”).

The Companies do not hold trading securities or held-to-maturity debt securities. Equity securities issued by subsidiaries and affiliated companies accounted for by the equity method are stated at moving average cost. Available-for-sale securities with available fair values are stated at fair value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders’ equity. Realized gains and losses on the sale of such securities are computed using moving average cost. Other securities with no available fair value are stated at moving average cost.

#### *Inventories*

Inventories of the Company and its consolidated domestic subsidiaries are stated at cost based on the moving average method, in which the amount of inventories shown on the balance sheet are written down based on any decrease in profitability.

Inventories of the consolidated foreign subsidiaries are stated principally at the lower of cost or market, cost being determined by the first-in, first-out method.

#### *Property, plant and equipment*

Property, plant and equipment are carried at cost. The Company and its consolidated domestic subsidiaries depreciate property, plant and equipment principally by the straight-line method over the estimated useful life of the asset.

The range of useful lives is summarized as follows:

Buildings and structures	3 to 60 years
Machinery, equipment and vehicles	2 to 17 years
Other	2 to 20 years

#### *Intangible assets*

Intangible assets consist of in-house software and other. The straight-line method is used to amortize intangible assets. The amortization of in-house software is computed using the straight-line method based on the estimated useful life of mainly five years.

#### *Finance leases*

Lease assets under finance lease transactions that do not transfer title of the lease assets are capitalized and depreciated on a straight-line basis with the lease period used as the useful life and no residual value.

#### *Allowance for doubtful accounts*

The Companies have adopted the policy of providing an allowance for doubtful accounts in an amount sufficient to cover possible losses on collection mainly by estimating the uncollectible amounts of certain receivables and applying a percentage based on collection experience to the remaining receivables.

#### *Bonuses*

The Company and certain consolidated subsidiaries provide for employees' bonuses at the balance sheet date based on the estimated amounts of projected bonus payments.

#### *Retirement benefits*

##### 1. Method used to attribute estimated amounts of retirement benefits to periods

In calculating retirement benefit obligations, the method used to attribute the estimated amount of retirement benefits to a period until the end of the consolidated fiscal year is mainly based on the benefit formula basis.

##### 2. Accounting methods for actuarial difference and prior service cost

Prior service cost is recognized mainly as current costs, and actuarial gains and losses are recognized in expenses using the straight-line method over mainly 15 years, a period which reflects the average of the estimated remaining service years of employees, commencing with the current period.

#### *Translation of foreign currencies*

Receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end rates. All revenues and expenses in foreign currencies are translated at the exchange rates prevailing when such transactions are made. The resulting gains and losses are recognized in the statements of income.

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at year-end rates, except for equity, which is translated at historical rates. Differences arising from the translations are presented as “Foreign currency translation adjustment” and “Non-controlling interests” in net assets. Income statement accounts of the consolidated foreign subsidiaries are translated at average annual rates.

#### *Derivatives and hedge accounting*

The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gain or loss unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gain or loss resulting from changes in the fair value of the derivative financial instruments until the corresponding loss or gain on the hedged items is recognized. However, if forward foreign exchange contracts are used as hedges and meet certain hedging criteria, the forward foreign exchange contracts and hedged items are accounted for at the forward foreign exchange contract rate. If interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the hedged assets or liabilities for which the interest rate swap contracts were executed.

The following summarizes hedging derivative financial instruments used by the Companies and the items hedged:

<u>Hedging instruments</u>	<u>Hedged items</u>
Forward foreign exchange contracts	Receivables and payables in foreign currency and others
Currency swap contracts	Loans payable in foreign currency
Interest rate swap contracts	Interest on loans payable in foreign currency and loans payable

The Companies use derivative financial instruments for hedging purposes to mitigate the risk of fluctuation in foreign currency exchange rates and interest rates.

The Companies evaluate hedging effectiveness by confirming a correlation between the hedging instruments and the hedged items. However, interest rate swap contracts that meet the requirements for special treatment are omitted from an assessment of effectiveness.

#### *Cash and cash equivalents*

Cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

#### *Research and development expenses*

Research and development expenses are charged to income as incurred. Research and development expenses for the year ended December 31, 2019 and 2018 were ¥3,475 million and ¥3,311 million, respectively.

#### *Income taxes*

Income taxes comprise corporation tax, prefectural and municipal inhabitants taxes and enterprise tax.

The asset-liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and operating loss and tax credit carryforwards.

#### *Consumption taxes*

Consumption taxes are excluded from revenue and expense accounts.

#### *Amounts per share*

##### (a) Net income per share of common stock

The Companies have adopted ASBJ Statement No. 2, “Accounting Standard for Earnings Per Share,” and Financial Accounting Standards Implementation Guidance No. 4, “Implementation Guidance for Accounting Standard for Earnings Per Share.”

##### (b) Cash dividends per share

Cash dividends per share presented in the statements of income represent the cash dividends declared applicable to the year, including dividends declared and paid after the end of the year.

#### *Net assets*

Under the Japanese Corporation Law (the “Law”) and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

The Law requires that an amount equal to 10% of dividends must be appropriated as additional paid-in capital or legal earnings reserve until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. However, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Law.

#### *Reclassification*

Certain reclassifications have been made to the consolidated financial statements for the year ended December 31, 2018 to conform to the presentation for the year ended December 31, 2019.

### 3. Changes in Accounting Policies

#### *(Application of IFRS 16 (Lease))*

Subsidiaries using International Financial Reporting Standards started to apply IFRS No.16 Lease (hereinafter referred to as “IFRS 16”) in the current fiscal year.

In transitioning to IFRS 16, the subsidiaries apply the standard retrospectively with the cumulative effect of initially applying the standard recognized at the initial date of application.

For the leases previously classified as operating lease applying IAS 17, right-of-use assets and lease liabilities were recognized at the date of initial application. In addition, a part of “Lease assets” in Property, plant and equipment and “Other” in Investments and other assets were reclassified to right-of-use assets.

As a result, in the consolidated balance sheet of the current consolidated fiscal year, “Other” in Property, plant and equipment increased by ¥1,821 million, “Lease obligations” in Current liabilities by ¥40 million, and that in Non-current liabilities by ¥197 million, and “Lease assets” in Property, plant and equipment decreased by ¥180 million, and “Other” in Investments and other assets by ¥816 million respectively.

The effects on the consolidated statements of income and consolidated statements of cash flows for the current consolidated fiscal year were inconsequential.

### 4. Accounting Standards and Guidance not yet Adopted

The following standard and guidance were issued but not yet adopted.

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29, March 30, 2018)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No.30, March 30, 2018)

#### (1) Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying following 5 steps:

Step1: Identify contract(s) with customers.

Step2: Identify the performance obligations in the contract.

Step3: Determine the transaction price.

Step4: Allocate the transaction price to the performance obligation in the contract.

Step5: Recognize revenue when (or as) the entity satisfies a performance obligation.

#### (2) Effective date

Effective from the beginning of the fiscal year ending December 31, 2022.

#### (3) Effect of application of the standard

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

## 5. Changes in Presentation

*(Changes due to adoption of “Partial Amendments to Accounting Standard for Tax Effect Accounting”)*

Upon application of “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018 (hereinafter, “Statement No. 28”)) from the beginning of the current fiscal year, the Company and its domestic subsidiaries changed the presentation and related notes of deferred tax assets and deferred tax liabilities, such that deferred tax assets and deferred tax liabilities are classified as part of ‘investments and other assets’ and ‘non-current liabilities,’ respectively.

As a result, ¥94 million and ¥362 million of deferred tax assets previously presented as “current assets” have been included in deferred tax assets (¥273 million) in “investments and other assets” and deferred tax liabilities (¥3,888 million) in “non-current liabilities,” respectively, in the balance sheet as of the end of the previous fiscal year.

The notes related to tax effect accounting additionally included those described in Note 8 (excluding total amount of valuation reserves) and Note 9 of “Accounting Standard for Tax Effect Accounting,” which are required in Paragraphs 3 to 5 of Statement No. 28. However, this additional information corresponding to the previous fiscal year is not disclosed, in accordance with the transitional treatments prescribed in Paragraph 7 of Statement No. 28.

## 6. Deferred Capital Gains on Tangible Fixed Assets

Under certain conditions, such as the exchange of similar kinds of fixed assets, gains from insurance claims and sales and purchases resulting from expropriation, Japanese tax laws permit companies to defer gains arising from such transactions by reducing the cost of the assets acquired. Accordingly, deferred capital gains from insurance claims were deducted from the cost of replacement properties, which amounted to ¥41 million as of both December 31, 2019 and 2018.

## 7. Effect of Bank Holiday

As financial institutions in Japan were closed on both December 31, 2019 and 2018, amounts that would have been settled on December 31 were collected or paid on the first business day in January, 2020 and 2019. The amounts included in the consolidated balance sheet as of December 31, 2019 and 2018 were as follows:

	<i>Millions of yen</i>	
	2019	2018
Notes and accounts receivable - trade.....	¥ 874	¥ 868
Notes and accounts payable - trade.....	46	58
Electronically recorded obligations - operating.....	1,994	1,893



## 8. Financial Instruments

### 1. Qualitative information on financial instruments

#### (1) Policies for using financial instruments

The Companies have policies to limit fund management to the use of highly secure financial assets such as short-term deposits and financing to the use of bank loans. Derivative transactions are used to manage the risk of fluctuation in the interest rates of bank loans with variable interest rates. The Companies do not use derivative transactions for speculation.

#### (2) Details of risk and risk management for financial instruments

Operating receivables such as “Notes and accounts receivable - trade” are exposed to customer credit risk. To manage such risk, due dates and the balances of operating receivables by customer are monitored by reviewing overdue receivable reports. In addition, credit research is performed regularly on customers whose accounts need attention.

Securities such as available-for-sale securities consist mainly of securities of parties with whom the Companies have business relationships and are exposed to market fluctuations risk. To manage such risk, the Companies monitor the fair value of the securities and the financial condition of the investees regularly to evaluate investment policy, taking the business relationships with the investees into consideration.

Operating payables such as “Notes and accounts payable - trade” and “Electronically recorded obligations - operating” are mostly due within one year.

Short-term loans payable are used as financing mainly for operating transactions, and long-term loans payable and lease obligations on finance leases are used as financing mainly for capital expenditure.

Loans payable at variable interest rates are exposed to the risk of interest rate fluctuation. However, for some long-term loans payable, derivative transactions, namely interest rate swap contracts, are used as hedging instruments to avoid interest rate risk and stabilize interest expense. Hedge effectiveness testing is not conducted as the interest rate swap contracts meet certain hedging criteria.

The execution and management of derivative transactions are conducted under the Company’s derivative transaction management rules and regulations, and the counterparties to derivative financial instruments are limited to high credit rating financial institutions to mitigate credit risk.

Operating payables and bank loans are exposed to liquidity risk, but the Companies manage the risk by preparing and reviewing respective monthly cash management plans.

### 2. Fair values of financial instruments

Consolidated balance sheet amounts and fair values of financial instruments and any differences as of December 31, 2019 and 2018 are set forth in the tables below.

Note that the following tables do not include fair values for financial instruments for which the fair value was extremely difficult to measure.

#### *Year ended December 31, 2019*

		<i>Millions of yen</i>		
	Consolidated balance sheet amount	Fair value	Difference	
(1) Cash and deposits.....	¥ 10,122	¥ 10,122	¥	-
(2) Notes and accounts receivable - trade.....	45,829	45,829		-
(3) Investments:				
Securities in affiliates.....	13,587	16,467		2,880
Available-for-sale securities.....	10,733	10,733		-
Total assets.....	¥ 80,271	¥ 83,151	¥	2,880
(1) Notes and accounts payable - trade.....	¥ 17,632	¥ 17,632	¥	-
(2) Electronically recorded obligations - operating.....	13,009	13,009		-
(3) Short-term loans payable	6,011	6,011		
(4) Long-term loans payable.....	10,219	10,216		(3)
Total liabilities.....	¥ 46,871	¥ 46,868	¥	(3)
Derivative transactions (*).....	-	-		-

(\*) Derivative assets and (liabilities) are on a net basis.

**Year ended December 31, 2018**

	<i>Millions of yen</i>		
	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits.....	¥ 7,194	¥ 7,194	¥ -
(2) Notes and accounts receivable - trade.....	46,507	46,507	-
(3) Investments:			
Securities in affiliates.....	13,187	15,461	2,274
Available-for-sale securities.....	10,033	10,033	-
Total assets.....	¥ 76,921	¥ 79,195	¥ 2,274
(1) Notes and accounts payable - trade.....	¥ 17,989	¥ 17,989	¥ -
(2) Electronically recorded obligations - operating.....	13,815	13,815	-
(3) Short-term loans payable	9,060	9,060	
(4) Long-term loans payable.....	8,690	8,672	(18)
Total liabilities.....	¥ 49,554	¥ 49,536	¥ (18)
Derivative transactions (*).....	-	-	-

(\*) Derivative assets and (liabilities) are on a net basis.

Note 1: Determination of fair value of financial instruments, securities and derivative transactions

Assets

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

The fair value approximates the carrying amount because of the short maturity of these instruments.

## (3) Investments

The fair value of securities is stated at the quoted market price. The fair value of investment trusts approximates the carrying amount because of the short maturity.

Securities are classified as securities in affiliates or available-for-sale securities.

The consolidated balance sheet amounts, acquisition costs and any differences for securities as of December 31, 2019 and 2018 were as follows:

**Year ended December 31, 2019**

	<i>Millions of yen</i>		
	Consolidated balance sheet amount	Acquisition cost (*)	Difference
(1) Equity securities with consolidated balance sheet amount exceeding acquisition cost.....	¥ 24,262	¥ 6,271	¥ 17,991
(2) Other.....	-	-	-
Subtotal.....	24,262	6,271	17,991
(1) Equity securities with consolidated balance sheet amount not exceeding acquisition cost.....	58	64	(6)
(2) Other.....	-	-	-
Subtotal.....	58	64	(6)
Total.....	¥ 24,320	¥ 6,335	¥ 17,985

(\*) Acquisition cost is the consolidated balance sheet amount after write-down.

The amount of write-down for the year ended December 31, 2019 was ¥2 million and there was no amount of write-down for the year ended December 31, 2018, and the amount of sales was ¥481 million and the amount of gain on sales was ¥211 million for 2019 and there were no sales for 2018.

**Year ended December 31, 2018**

	<i>Millions of yen</i>		
	Consolidated balance sheet amount	Acquisition cost (*)	Difference
(1) Equity securities with consolidated balance sheet amount exceeding acquisition cost .....	¥ 23,109	¥ 6,456	¥ 16,653
(2) Other .....	-	-	-
Subtotal .....	23,109	6,456	16,653
(1) Equity securities with consolidated balance sheet amount not exceeding acquisition cost .....	111	119	(8)
(2) Other .....	-	-	-
Subtotal .....	111	119	(8)
Total .....	¥ 23,220	¥ 6,575	¥ 16,645

(\*) Acquisition cost is the consolidated balance sheet amount after write-down.

**Liabilities**

(1) Notes and accounts payable - trade, (2) Electronically recorded obligations – operating and (3) Short-term loans payable

The fair value approximates the carrying amount because of the short maturity of these instruments.

(4) Long-term loans payable

The fair value of long-term loans payable is estimated by the present value of the total amount of principal and interest discounted at the interest rate that would apply to similar new borrowings.

**Derivative transactions**

There were no amounts for derivative transactions as of December 31, 2019 and 2018.

Note 2: Financial instruments for which the fair value is extremely difficult to measure

Non-listed equity securities classified as available-for sale securities or equity securities issued by subsidiaries and affiliated companies in the consolidated balance sheet amount of ¥991 million as of December 31, 2019 and ¥3,284 million as of December 31, 2018 were not included in “Assets (3) Investments” because they had no quoted market price, future cash flows could not be estimated and the fair values were unavailable.

Note 3: Aggregate annual maturities of money claims and securities with maturities as of December 31, 2019 and 2018 were as follows:

**Year ended****December 31, 2019**

	<i>Millions of yen</i>			
	2020	2021-2024	2025-2029	2030 and thereafter
Cash and deposits .....	¥ 10,122	¥ -	¥ -	¥ -
Notes and accounts receivable - trade .....	45,829	-	-	-
Total .....	¥ 55,951	¥ -	¥ -	¥ -

**Year ended****December 31, 2018**

	<i>Millions of yen</i>			
	2019	2020-2023	2024-2028	2029 and thereafter
Cash and deposits .....	¥ 7,194	¥ -	¥ -	¥ -
Notes and accounts receivable - trade .....	46,507	-	-	-
Total .....	¥ 53,701	¥ -	¥ -	¥ -

Note 4: Aggregate annual maturities of long-term loans payable as of December 31, 2019 and 2018 were as follows:

***Year ended***

***December 31, 2019***

***Millions of yen***

	2020	2021	2022	2023	2024	2025 and thereafter
Long-term loans payable .....	¥ 2,160	¥ 2,180	¥ 4,320	¥ 407	¥ 1,153	¥ -

***Year ended***

***December 31, 2018***

***Millions of yen***

	2019	2020	2021	2022	2023	2024 and thereafter
Long-term loans payable .....	¥ 1,358	¥ 1,733	¥ 1,674	¥ 3,841	¥ 83	¥ 1

## 9. Securities

The following tables summarize the consolidated balance sheet amount, acquisition cost and fair value of available-for sale securities as of December 31, 2019 and 2018. Available-for-sale securities (non-listed equity securities) in the consolidated balance sheet amount of ¥289 million as of December 31, 2019 and ¥191 million as of December 31, 2018 were not included because they had no quoted market price, the future cash flows could not be estimated and the fair values were unavailable. Proceeds from the sale of available-for-sale securities amounted to ¥480 million for the year ended December 31, 2019, and the related gains amounted to ¥211 million for the year ended December 31, 2019. A description for the year ended December 31, 2018 was omitted because proceeds from the sale of available-for-sale securities were immaterial.

When the fair value of securities at the fiscal year end is lower than the acquisition cost by 50% or more, the whole amount of such difference is recorded as impairment loss, in principle. When the fair value at the fiscal year end is lower than the acquisition cost by between 30% and 50%, impairment loss in an amount deemed necessary is recorded after determining recoverability by considering quoted market price transactions during a certain past period, business performance and other factors.

The amount of impairment for available-for-sale securities for the year ended December 31, 2019 was 2 million and there was no amount of impairment for available-for-sale securities for the year ended December 31, 2018.

### *Year ended December 31, 2019*

	<i>Millions of yen</i>		
	Consolidated balance sheet amount	Acquisition cost	Difference
(1) Equity securities with consolidated balance sheet amount exceeding acquisition cost.....	¥ 10,675	¥ 5,847	¥ 4,828
(2) Other .....	-	-	-
Subtotal .....	10,675	5,847	4,828
(1) Equity securities with consolidated balance sheet amount not exceeding acquisition cost .....	58	64	(6)
(2) Other .....	-	-	-
Subtotal .....	58	64	(6)
Total .....	¥ 10,733	¥ 5,911	¥ 4,822

### *Period ended December 31, 2018*

	<i>Millions of yen</i>		
	Consolidated balance sheet amount	Acquisition cost	Difference
(1) Equity securities with consolidated balance sheet amount exceeding acquisition cost.....	¥ 9,922	¥ 6,032	¥ 3,890
(2) Other .....	-	-	-
Subtotal .....	9,922	6,032	3,890
(1) Equity securities with consolidated balance sheet amount not exceeding acquisition cost .....	111	119	(8)
(2) Other .....	-	-	-
Subtotal .....	111	119	(8)
Total .....	¥ 10,033	¥ 6,151	¥ 3,882

## 10. Inventories

Inventories at December 31, 2019 and 2018 consisted of the following:

	<i>Millions of yen</i>	
	2019	2018
Merchandise and finished goods .....	¥ 11,480	¥ 9,759
Work-in-process .....	1,178	1,220
Raw materials and supplies .....	9,025	9,180
	<u>¥ 21,683</u>	<u>¥ 20,159</u>

## 11. Short-term Loans Payable and Long-term Loans Payable

Short-term loans payable at December 31, 2019 and 2018 consisted of short-term notes generally for one year bearing interest ranging from 0.24% to 8.90%.

Long-term loans payable at December 31, 2019 and 2018 consisted of the following:

	<i>Millions of yen</i>	
	2019	2018
Secured:		
Loans principally from banks at 3.65% - 3.65% maturing through 2023 .....	¥ 211	¥ 405
Unsecured:		
Loans principally from banks at 0.20% - 4.70% maturing through 2024 .....	10,008	8,285
	10,219	8,690
Less amounts due within one year .....	2,160	1,358
	<u>¥ 8,059</u>	<u>¥ 7,332</u>

The aggregate annual maturities of long-term loans payable at December 31, 2019 were as follows:

<u>Year ending December 31,</u>	<i>Millions of yen</i>
2020 .....	¥ 2,160
2021 .....	2,180
2022 .....	4,320
2023 .....	407
2024 and thereafter .....	1,152
	<u>¥ 10,219</u>

The Company has specific commitment lines with two banks to finance working capital as follows:

Specific commitment lines .....	¥ 3,000 million
Used portion as of December 31, 2019 .....	¥ -

## 12. Assets Pledged as Collateral

Assets pledged as collateral as of December 31, 2019 and 2018 were as follows:

	<i>Millions of yen</i>	
	2019	2018
Notes and accounts receivable - trade .....	¥ 8	¥ 8
Land .....	129	168
Buildings and structures, net of accumulated depreciation .....	638	1,051
Machinery, equipment and vehicles, net of accumulated depreciation .....	1	3
Investments in other .....	50	47
	<u>¥ 826</u>	<u>¥ 1,277</u>

Liabilities secured by the above assets were as follows:

	<i>Millions of yen</i>	
	2019	2018
Short-term loans payable.....	¥ 8	¥ 8
Current portion of long-term loans payable .....	73	113
Notes and accounts payable - trade.....	214	228
Other current liabilities.....	1	2
Long-term loans payable.....	222	298
Other non-current liabilities .....	0	1
	<u>¥ 518</u>	<u>¥ 650</u>

### 13. Finance Leases

Capitalized finance leases of the Companies at December 31, 2019 and 2018 were as follows:

(As lessee)

Finance leases for which the ownership of the lease assets was not considered to be transferred to the lessee as of and for the year ended December 31, 2019 and 2018 were as follows:

(1) Description of lease assets

Tangible fixed assets:

Mainly, the production facilities in the printing ink business (machinery and equipment) for common purposes or each business.

(2) Depreciation method for lease assets

As described in Note 2, "Significant Accounting Policies - *Finance leases*"

## 14. Retirement Benefits

### 1. Outline of adopted retirement benefit plans

The Company and certain domestic consolidated subsidiaries provide funded non-contributory pension plans, which include defined benefit pension plans and unfunded lump-sum payment plans. Certain foreign consolidated subsidiaries provide defined contribution plans as well as defined benefit pension plans.

### 2. Defined benefit plans, including plans applying the simplified method

#### (1) Movement in retirement benefit obligations

	<i>Millions of yen</i>	
	2019	2018
Balance at the beginning of current period .....	¥ 12,626	¥ 12,947
Service cost (*).....	522	518
Interest cost .....	86	89
Actuarial loss (gain) .....	(38)	(290)
Benefits paid .....	(473)	(555)
Past service cost .....	(52)	-
Other .....	35	(83)
Balance at the end of current period .....	¥ 12,706	¥ 12,626

(\*) Service cost includes retirement benefit costs of consolidated subsidiaries applying the simplified method.

#### (2) Movement in plan assets

	<i>Millions of yen</i>	
	2019	2018
Balance at the beginning of current period .....	¥ 7,657	¥ 7,921
Expected return on plan assets .....	162	150
Actuarial loss (gain) .....	208	(392)
Contributions paid by the employer .....	436	429
Benefits paid .....	(352)	(410)
Other .....	(8)	(41)
Balance at the end of current period .....	¥ 8,103	¥ 7,657

#### (3) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability (asset)

	<i>Millions of yen</i>	
	2019	2018
Funded retirement benefit obligations .....	¥ 8,017	¥ 8,057
Plan assets .....	(8,103)	(7,657)
Total .....	(86)	400
Unfunded retirement benefit obligations .....	4,688	4,568
Total net liability (asset) for retirement benefits at the end of current period .....	¥ 4,602	¥ 4,968
Net defined benefit liability .....	4,770	4,968
Net defined benefit asset .....	(168)	-
Total net liability (asset) for retirement benefits at the end of current period .....	¥ 4,602	¥ 4,968



(4) Retirement benefit costs

	<i>Millions of yen</i>	
	2019	2018
Service cost (*)	¥ 522	¥ 518
Interest cost	86	89
Expected return on plan assets	(162)	(150)
Net actuarial loss amortization	161	178
Past service cost	(52)	-
Other	(5)	(21)
Total retirement benefit costs for defined benefit plans	¥ 550	¥ 614

(\*) Service cost includes retirement benefit costs of consolidated subsidiaries applying simplified method.

(5) Remeasurements of defined benefit plans

	<i>Millions of yen</i>	
	2019	2018
Actuarial gains and losses	421	90
Total	¥ 421	¥ 90

(6) Accumulated remeasurements of defined benefit plans

	<i>Millions of yen</i>	
	2019	2018
Actuarial gains and losses that are yet to be recognized	1,502	1,923
Total	¥ 1,502	¥ 1,923

(7) Plan assets

	2019	2018
(a) Plan assets comprise:		
Bonds	54.3 %	54.7 %
Equity securities	11.1	9.3
Alternative assets (*)	22.4	22.2
Other	12.2	13.8
Total	100.0 %	100.0 %

(\*) Alternative is investment mainly for multi-asset investment fund.

(b) Long-term expected rate of return

Current and expected plan assets portfolio and historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

	2019	2018
The principal actuarial assumptions were as follows:		
Discount rate	Mainly 0.30%	Mainly 0.30%
Long-term expected rate of return	Mainly 2.00%	Mainly 2.00%
Expected rate of pay raises	Mainly 2.86%	Mainly 2.86%

3. Defined contribution plan

	<i>Millions of yen</i>	
	2019	2018
Accrued contribution by consolidated subsidiaries	¥ 470	¥ 368

## 15. Deferred Income Taxes

Significant components of the Companies' deferred tax assets and liabilities as of December 31, 2019 and 2018 were as follows:

	<i>Millions of yen</i>	
	2019	2018
Deferred tax assets:		
Allowance for doubtful accounts.....	¥ 227	¥ 166
Provision for bonuses.....	138	148
Net defined benefit liability.....	1,857	1,919
Write-down of inventories.....	48	43
Intangible assets.....	298	76
Tax loss carryforwards.....	1,112	690
Other.....	721	617
Subtotal.....	4,401	3,659
Valuation allowance for tax loss carryforwards.....	(1,042)	-
Valuation allowance for total of deductive temporary differences.....	(435)	-
Subtotal.....	(1,477)	(858)
Total deferred tax assets.....	2,924	2,801
Deferred tax liabilities:		
Valuation difference on available-for-sale securities.....	(1,470)	(1,178)
Special reserves.....	(955)	(931)
Retained earnings of subsidiaries and affiliated companies.....	(3,566)	(3,360)
Other.....	(1,097)	(947)
Total deferred tax liabilities.....	(7,088)	(6,416)
Net deferred tax assets (liabilities).....	¥ (4,164)	¥ (3,615)

Note 1: Valuation allowance increased by ¥618 million because some subsidiaries additionally recognized ¥385 million due to an increase in tax loss carryforwards and ¥252 million related to intangible fixed assets.

Note 2: Expiration period of tax loss carryforwards and deferred tax assets.

*Year ended*

*December 31, 2019*

	<i>Millions of yen</i>						
	2020	2021	2022	2023	2024	2025 and thereafter	Total
Tax loss							
carryforwards.....	¥ 9	¥ 11	¥ -	¥ 21	¥ 59	¥ 1,012	¥ 1,112
Valuation							
allowance.....	(9)	(11)	-	(21)	(59)	(942)	(1,042)
Deferred							
tax assets.....	-	-	-	-	-	70	70

(\*) The amount of tax loss carryforwards in the above table is after multiplying the statutory tax rate.

The reconciliation between the effective tax rate reflected in the consolidated financial statements and the statutory tax rate for the years ended December 31, 2019 and 2018 is summarized as follows:

	2019	2018
Statutory tax rate of the Company .....	30.6%	-%
(Reconciliation)		
Expenses not qualifying for deduction .....	1.6	-
Revenues not in gross revenue .....	(3.9)	-
Tax credits .....	(2.8)	-
Equity in earnings of affiliates .....	(3.2)	-
Elimination of dividend income .....	4.3	-
Valuation allowance .....	8.8	-
Retained earnings of foreign subsidiaries .....	2.9	-
Difference in the effective tax rates of foreign subsidiaries .....	(2.5)	-
Other .....	(2.0)	-
Effective tax rate after adoption of tax effect accounting .....	33.8%	-%

(\*) A reconciliation for the year ended December 31, 2018 was omitted because the difference between the statutory tax rate and the effective tax rate after adoption of tax effect accounting was less than 5% of the statutory tax rate for the year.

## 16. Contingent Liabilities

At December 31, 2019 and 2018, the Companies were contingently liable as follows:

	<i>Millions of yen</i>	
	2019	2018
ETERNAL SAKATA INX CO., LTD. ....	¥ -	¥ 153
TAIWAN SAKATA INX CORP. ....	149	148
Other .....	11	35
Total .....	¥ 160	¥ 336

The Company provides letters of awareness to banks for bank loans of unconsolidated subsidiaries and affiliated companies, and the Company also provides guarantees of indebtedness for leases of unconsolidated subsidiaries and affiliated companies. The guarantee obligations include amounts guaranteed by other parties, and those amounts are excluded from the amounts stated above.

The amounts guaranteed by other parties were as follows:

	<i>Millions of yen</i>	
	2019	2018
	¥ 3	¥ 8

## 17. Selling, General and Administrative Expenses

The main items of selling, general and administrative expenses for the year ended December 31, 2019 and 2018 were as follows:

	<i>Millions of yen</i>	
	2019	2018
Freightage and packing expenses .....	¥ 5,252	¥ 5,129
Salaries and allowances .....	9,642	9,423
Depreciation .....	790	786
Provision of allowance for doubtful accounts .....	372	(61)
Provision for bonuses .....	276	297
Retirement benefit expenses .....	563	503
Research and development expenses .....	3,475	3,311

## 18. Impairment Loss

### *Year ended December 31, 2019*

Impairment loss recognized for the year ended December 31, 2019 was as follows:

Location	Purpose of use	Type	Amount (Millions of yen)
Hyogo, Japan	Welfare facility	Land	¥ 140
		Buildings and structures	50
Total			¥ 190

The business assets of the Companies are generally grouped based on business segment, while the assets of a part of consolidated subsidiaries are grouped based on each company.

Welfare facilities were treated as common assets that do not generate independent cash flow. Book value on the above assets was reduced to recoverable value.

The recoverable value of the assets was calculated based on net sale prices which were measured by expected sale prices.

### *Year ended December 31, 2018*

Not applicable

## 19. Loss on Retirement of Property, Plant and Equipment

The details of loss on retirement of property, plant and equipment for the years ended December 31, 2019 and 2018 were as follows:

	<i>Millions of yen</i>	
	2019	2018
Buildings and structures.....	¥ 1	¥ 23
Machinery, equipment and vehicles .....	1	2
Other fixed assets .....	0	1
Demolition and removal expenses .....	38	45
Total.....	¥ 40	¥ 71

## 20. Restructuring loss

### *Year ended December 31, 2019*

Close of a factory of INX International FRANCE SAS was decided to reconstruct a production system in Europe, and ¥216 million was recognized as restructuring loss.

The details were ¥184 million as early retirement costs and ¥32 million as other restructuring costs.

### *Year ended December 31, 2018*

Not applicable

## 21. Consolidated Statements of Comprehensive Income

The reclassification adjustment and the tax benefit concerning other comprehensive income for the years ended December 31, 2019 and 2018 were as follows:

	<i>Millions of yen</i>	
	2019	2018
Valuation difference on available-for-sale securities		
Amount arising during the period	¥ 1,150	¥ (3,075)
Reclassification adjustment included in net income	(211)	(0)
Pre-tax amount	939	(3,075)
Tax benefit	(292)	939
Valuation difference on available-for-sale securities	647	(2,136)
Deferred gains or losses on hedges		
Amount arising during the period	-	0
Pre-tax amount	-	0
Tax benefit	-	(0)
Deferred gains or losses on hedges	-	0
Foreign currency translation adjustment		
Amount arising during the period	(308)	(1,595)
Remeasurements of defined benefit plans		
Amount arising during the period	230	(85)
Reclassification adjustment included in net income	191	175
Pre-tax amount	421	90
Tax benefit	(133)	(26)
Remeasurements of defined benefit plans	288	64
Share of other comprehensive income of affiliates accounted for using equity method		
Amount arising during the period	(53)	(558)
Reclassification adjustment included in net income	11	12
Share of other comprehensive income of affiliates accounted for using equity method	(42)	(546)
Total other comprehensive income	¥ 585	¥ (4,213)

## 22. Supplementary Cash Flow Information

The reconciliation of cash and cash equivalents in the consolidated statements of cash flows and cash and deposits in the consolidated balance sheets as of December 31, 2019 and 2018 were as follows:

	<i>Millions of yen</i>	
	2019	2018
Cash and deposits	¥ 10,122	¥ 7,194
Time deposits with original maturity of more than three months	(761)	(406)
Cash and cash equivalents	¥ 9,361	¥ 6,788

## 23. Segment Information

### 1. Overview of reportable segments

The Companies' reportable segments are components of the Companies for which separate financial information is obtainable and which the Board of Directors and Management Committee regularly consider in order to determine the allocation of business resources and evaluate business performance. The Companies are engaged mainly in the manufacture and sale of printing inks. Multiple divisions of the Company are engaged in the domestic market, and the foreign subsidiaries are engaged in their own respective overseas markets, such as markets of Asia, Americas and Europe.

Foreign subsidiaries that have independent management units establish their own comprehensive strategies and develop business activities in their respective regions and surrounding areas. Besides the sale of printing inks, the Company purchases and sells graphic arts materials in the domestic market. In addition, the Company purchases and sells printing equipment in the domestic market.

The digital & specialty products business such as inkjet ink, toner, pigment dispersion and others developed through the basic technology of printing inks like pigment dispersion make up various independent operational segments. The Companies focus on expanding the revenue base of the digital & specialty products business led by the Company.

Therefore, the Companies' printing inks business, our core business, comprises the geographic segments based on the production and sales structure. The Companies' printing inks business consists of the four reportable segments of "Printing inks and graphic arts materials (Japan)," "Printing inks (Asia)," "Printing inks (Americas)" and "Printing inks (Europe)." Furthermore, the "Digital & Specialty products" business, in which the Companies promote business expansion, constitutes another reportable segment for a total of five reportable segments.

<i>Reportable segment</i>	<i>Main products and merchandise</i>
Printing inks and graphic arts materials (Japan)	Packaging ink, Flexible packaging gravure ink, News paper printing ink, Commercial printing ink, Print and plate making equipment and materials, Packaging equipment and supplies
Printing inks (Asia)	Packaging ink, Flexible packaging gravure ink, Metal decorating ink, News paper printing ink, Commercial printing ink
Printing inks (Americas)	Packaging ink, Flexible packaging gravure ink, Metal decorating ink, Commercial ink
Printing inks (Europe)	Packaging ink, Flexible packaging gravure ink, Metal decorating ink, Commercial ink
Digital & Specialty products	Inkjet ink, Toner, Pigment dispersion for color filter, Functional coating

### 2. Basis of measurement for reported segment sales, income or loss, assets and other items

The accounting policies of the reportable segments are essentially the same as those described in Note 2, "Significant Accounting Policies."

Segment income or loss is stated on an operating income basis. Intersegment income and transfers are based on the prevailing markets prices.

### 3. Change of reportable segments

As Creative Industria e Comercio Ltda. and another subsidiary, which were non-consolidated subsidiaries as of the end of the previous fiscal year, were included in scope of consolidation in the current fiscal year, "Printing inks (North America)" was renamed to "Printing inks (Americas)" retrospectively. Information for the previous fiscal year was disclosed with the same reportable segments.

#### 4. Information about reportable segment sales, segment income or loss, segment assets and other items

*Year ended*  
*December 31, 2019*

*Millions of yen*

	Reportable Segment						Other businesses (*1)	Total	Adjustments (*2)	Consolidated (*3)
	Printing inks and graphic arts materials (Japan)	Printing inks (Asia)	Printing inks (Americas)	Printing inks (Europe)	Digital & Specialty products	Total				
Net sales to outside customers	¥51,858	¥35,204	¥47,595	¥9,481	¥12,359	¥156,497	¥10,741	¥167,238	¥ -	¥167,238
Intersegment sales and transfers	19	73	1,176	310	94	1,672	6,096	7,768	(7,768)	-
Total	51,877	35,277	48,771	9,791	12,453	158,169	16,837	175,006	(7,768)	167,238
Segment income	¥822	¥2,421	¥1,945	¥(985)	¥926	¥5,129	¥370	¥5,499	¥727	¥6,226
Segment assets	41,404	32,798	25,487	8,989	11,037	119,715	5,583	125,298	22,994	148,292
Depreciation	1,480	730	905	247	907	4,269	72	4,341	-	4,341
Amortization of goodwill	-	-	108	-	-	108	-	108	-	108
Increase in property, plant and equipment and intangible assets	801	1,813	977	354	914	4,859	19	4,878	-	4,878

(\*1) The “Other businesses” category includes the chemical products business, color film developing and printing services and equipment for color matching systems not shown in reportable segments.

(\*2) Adjustments are as follows:

1. The adjustment of ¥727 million for segment income includes eliminations for intersegment transactions of ¥929 million and corporate expenses of ¥(202) million that have not been allocated to any segment. Corporate expenses are mainly service fees to unconsolidated subsidiaries and affiliates.
2. The adjustment of ¥22,994 million for segment assets includes eliminations for intersegment transactions of ¥(6,274) million and corporate assets of ¥29,268 million that have not been allocated to any segment. Corporate assets are mainly investment securities held for a corporate common purpose.

(\*3) Segment income is adjusted to be consistent with operating income shown on the consolidated statements of income.

Year ended

December 31, 2018

Millions of yen

	Reportable Segment					Total	Other businesses (*1)	Total	Adjustments (*2)	Consolidated (*3)
	Printing inks and graphic arts materials (Japan)	Printing inks (Asia)	Printing inks (Americas)	Printing inks (Europe)	Digital & Specialty products					
Net sales to outside customers	¥54,932	¥32,012	¥43,440	¥9,239	¥12,101	¥151,724	¥10,332	¥162,056	¥ -	¥162,056
Intersegment sales and transfers	19	145	1,517	82	84	1,847	6,004	7,851	(7,851)	-
Total	54,951	32,157	44,957	9,321	12,185	153,571	16,336	169,907	(7,851)	162,056
Segment income	¥1,126	¥1,530	¥992	¥(792)	¥1,223	¥4,079	¥390	¥4,469	¥643	¥5,112
Segment assets	42,692	27,808	24,703	8,984	11,467	115,654	5,591	121,245	24,250	145,495
Depreciation	1,459	590	875	261	781	3,966	71	4,037	-	4,037
Increase in property, plant and equipment and intangible assets	2,788	969	1,292	245	1,067	6,361	29	6,390	-	6,390

(\*1) The "Other businesses" category includes the chemical products business, color film developing and printing services and equipment for color matching systems not shown in reportable segments.

(\*2) Adjustments are as follows:

1. The adjustment of ¥643 million for segment income includes eliminations for intersegment transactions of ¥846 million and corporate expenses of ¥(203) million that have not been allocated to any segment. Corporate expenses are mainly service fees to unconsolidated subsidiaries and affiliates.
2. The adjustment of ¥24,250 million for segment assets includes eliminations for intersegment transactions of ¥(6,465) million and corporate assets of ¥30,715 million that have not been allocated to any segment. Corporate assets are mainly investment securities held for a corporate common purpose.

(\*3) Segment income is adjusted to be consistent with operating income shown on the consolidated statements of income.



(Related information)

**Year ended December 31, 2019**

1. Information about each product and service

<b>Year ended December 31, 2019</b>	<b>Millions of yen</b>				
	Printing inks	Graphic arts materials	Digital & Specialty products	Other	Total
Net sales to outside customers	¥ 130,951	¥ 13,247	¥ 12,359	¥ 10,681	¥ 167,238

2. Information about geographic areas

<i>Year ended</i> <i>December 31, 2019</i>	<i>Millions of yen</i>										
	Japan		Asia		America		Europe		Other		Total
Net sales	¥	65,441	¥	37,439	¥	41,411	¥	11,411	¥	11,536	¥ 167,238
Property, plant and equipment	¥	23,021	¥	7,968	¥	7,334	¥	2,574	¥	277	¥ 41,174

Note: Net sales are classified by country and region based on customer location.

3. Major customers

No information is available as there were no outside customers accounting for 10% or more of the Companies' total net sales.

(Impairment loss by reportable segments)

<b>Year ended December 31, 2019</b>	<b>Millions of yen</b>								
	<b>Reportable Segment</b>								
	Printing inks and graphic arts materials (Japan)	Printing inks (Asia)	Printing inks (Americas)	Printing inks (Europe)	Digital & Specialty products	Total	Other businesses	Adjustments	Consolidated
Impairment loss	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -	¥ 190	¥ 190

(Amortization and unamortized balance of goodwill)

<b>Year ended December 31, 2019</b>	<b>Millions of yen</b>								
	<b>Reportable Segment</b>								
	Printing inks and graphic arts materials (Japan)	Printing inks (Asia)	Printing inks (Americas)	Printing inks (Europe)	Digital & Specialty products	Total	Other businesses	Adjustments	Consolidated
Amortization of goodwill	¥ -	¥ 108	¥ -	¥ -	¥ -	¥ 108	¥ -	¥ -	¥ 108
Balance as of December 31, 2019	¥ -	¥ 739	¥ -	¥ -	¥ -	¥ 739	¥ -	¥ -	¥ 739

(Negative goodwill in other income by reportable segments)

Not applicable

***Year ended December 31, 2018***

1. Information about each product and service

<b><i>Year ended December 31, 2018</i></b>	<b><i>Millions of yen</i></b>				
	Printing inks	Graphic arts materials	Digital & Specialty products	Other	Total
Net sales to outside customers	¥ 124,557	¥ 15,149	¥ 12,101	¥ 10,249	¥ 162,056

2. Information about geographic areas

<i>Year ended December 31, 2018</i>	<i>Millions of yen</i>										
	Japan		Asia		America		Europe		Other		Total
Net sales	¥	67,831	¥	34,913	¥	39,602	¥	11,121	¥	8,589	¥ 162,056
Property, plant and equipment	¥	23,636	¥	5,329	¥	7,457	¥	2,502	¥	8	¥ 38,932

Note: Net sales are classified by country and region based on customer location.

3. Major customers

No information is available as there were no outside customers accounting for 10% or more of the Companies' total net sales.

(Impairment loss by reportable segments)

Not applicable

(Amortization and unamortized balance of goodwill)

Not applicable

(Negative goodwill in other income by reportable segments)

Not applicable

## 24. Related Party Transactions

Transactions with related parties for the years ended December 31, 2019 and 2018 were as follows:

### *Year ended December 31, 2019*

Attribute	Name	Location	Capital stock (Millions of RMB)	Operations or occupation	Holding equity (%)	Relationship	Transaction details	Transaction amount (Millions of yen)	Account	Balance at year end (Millions of yen)
Affiliate	SHENZHEN SAKATA INX CO., LTD.	Shenzhen, China	2	Printing ink	Direct 25.0	Sales of finished goods	Sales of finished goods	¥ 2,863	Notes and accounts receivable - trade	¥ 2,062
									Investments and other assets: Other	¥ 174

Note 1: The trade terms of the above transactions were determined using the same methods as those for third-party transactions.

Note 2: The amount of ¥174 million was accounted for as allowance for doubtful accounts to cover possible losses on collection from SHENZHEN SAKATA INX CO., LTD., and the amount of reversal of allowance for doubtful accounts for the year ended December 31, 2019 was ¥1 million.

### *Year ended December 31, 2018*

Attribute	Name	Location	Capital stock (Millions of RMB)	Operations or occupation	Holding equity (%)	Relationship	Transaction details	Transaction amount (Millions of yen)	Account	Balance at year end (Millions of yen)
Affiliate	SHENZHEN SAKATA INX CO., LTD.	Shenzhen, China	2	Printing ink	Direct 25.0	Sales of finished goods	Sales of finished goods	¥ 2,832	Notes and accounts receivable - trade	¥ 2,079
									Investments and other assets: Other	¥ 181

Note 1: The trade terms of the above transactions were determined using the same methods as those for third-party transactions.

Note 2: The amount of ¥181 million was accounted for as allowance for doubtful accounts to cover possible losses on collection from SHENZHEN SAKATA INX CO., LTD., and the amount of reversal of allowance for doubtful accounts for the year ended December 31, 2018 was ¥53 million.

## 25. Changes in Net Assets

### 1. Shares issued and treasury shares

#### *Year ended December 31, 2019*

Type	Number of shares as of the beginning of current period	Increase in number of shares during the period	Decrease in number of shares during the period	Number of shares as of the end of current period
Shares issued: Common stock	62,601,161	-	-	62,601,161
Treasury shares: Common stock	4,201,943	294	-	4,202,237

Note: The increase in the number of treasury shares of 294 shares was due to the purchase of fractional shares.

#### *Year ended December 31, 2018*

Type	Number of shares as of the beginning of current period	Increase in number of shares during the period	Decrease in number of shares during the period	Number of shares as of the end of current period
Shares issued: Common stock	62,601,161	-	-	62,601,161
Treasury shares: Common stock	4,201,482	461	-	4,201,943

Note: The increase in the number of treasury shares of 461 shares was due to the purchase of fractional shares.

### 2. Dividends

#### *Dividends paid in the year ended December 31, 2019*

Date of resolution	Type of shares	Amount of dividends (Millions of yen)	Cash dividends per share (Yen)	Record date	Effective date
Annual meeting of stockholders held on March 26, 2019	Common stock	¥ 876	¥ 15	December 31, 2018	March 27, 2019
Directors' meeting held on August 10, 2019	Common stock	¥ 876	¥ 15	June 30, 2019	September 6, 2019

#### *Dividends paid in the year ended December 31, 2018*

Date of resolution	Type of shares	Amount of dividends (Millions of yen)	Cash dividends per share (Yen)	Record date	Effective date
Annual meeting of stockholders held on March 28, 2018	Common stock	¥ 934	¥ 16	December 31, 2017	March 29, 2018
Directors' meeting held on August 10, 2018	Common stock	¥ 876	¥ 15	June 30, 2018	September 7, 2018

Dividends with a record date attributable to the year ended December 31, 2019 but an effective date after December 31, 2019

Date of resolution	Type of shares	Source of dividends	Amount of dividends (Millions of yen)	Cash dividends per share (Yen)	Record date	Effective date
Annual meeting of stockholders held on March 26, 2020	Common stock	Retained earnings	¥ 876	¥ 15	December 31, 2019	March 27, 2020

Dividends with a record date attributable to the year ended December 31, 2018 but an effective date after December 31, 2018

Date of resolution	Type of shares	Source of dividends	Amount of dividends (Millions of yen)	Cash dividends per share (Yen)	Record date	Effective date
Annual meeting of stockholders held on March 26, 2019	Common stock	Retained earnings	¥ 876	¥ 15	December 31, 2018	March 27, 2019

## 26. Information on Significant Affiliates

A summary of the financial statements of SIIX Corporation, a significant affiliate, is as follows:

### Summarized balance sheets as of December 31, 2019 and 2018

	<i>Millions of yen</i>	
	2019	2018
Current assets.....	¥ 101,991	¥ 101,940
Non-current assets .....	¥ 41,401	¥ 35,538
Current liabilities.....	¥ 68,873	¥ 63,596
Non-current liabilities .....	¥ 16,269	¥ 17,866
Net assets .....	¥ 58,250	¥ 56,016

### Summarized statements of income for the years ended December 31, 2019 and 2018

	<i>Millions of yen</i>	
	2019	2018
Net sales.....	¥ 223,038	¥ 242,804
Income before income taxes.....	¥ 5,635	¥ 8,719
Net income attributable to owners of parent.....	¥ 3,695	¥ 6,415

## 27. Amounts Per Share

	<i>Yen</i>	
	2019	2018
Net assets per share .....	¥ 1,313.31	¥ 1,272.41
Dividends per share .....	¥ 30.00	¥ 30.00
Net income per share .....	¥ 70.46	¥ 80.36

Note 1: There were no dilutive securities.

Note 2: The calculation of net income per share was as follows:

	2019	2018
Net income attributable to owners of parent (millions of yen) .....	¥ 4,115	¥ 4,693
Net income attributable to owners of parent related to common stock (millions of yen) .....	¥ 4,115	¥ 4,693
Average number of shares of common stock during the fiscal year (thousands) .....	58,399	58,399