

The 124th Business Term

# Annual Securities Report

Fiscal year      From January 1, 2021  
                         To     December 31, 2021

DIC Corporation

E00901

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT  
This is a translation of the original Japanese-language document and is provided for convenience only. In all cases, the Japanese-language original shall take precedence.

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(Note) Non-consolidated financial statements are included in the Japanese-language original.

[Cover]

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[Company name in English]	DIC Corporation
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Part I Corporate Information

I. Overview of the Company

1. Key Financial Data and Trends

(1) Consolidated financial data, etc.

Fiscal year		120th	121st	122nd	123rd	124th
Year-end		December 2017	December 2018	December 2019	December 2020	December 2021
Net sales	(Millions of yen)	789,427	805,498	768,568	701,223	855,379
Ordinary income	(Millions of yen)	56,960	48,702	41,302	36,452	43,758
Net income attributable to owners of parent	(Millions of yen)	38,603	32,028	23,500	13,233	4,365
Comprehensive income	(Millions of yen)	50,957	(3,844)	28,473	20,396	40,596
Net assets	(Millions of yen)	343,951	327,334	343,497	351,364	381,008
Total assets	(Millions of yen)	831,756	801,296	803,083	817,950	1,071,481
Shareholders' equity per share	(Yen)	3,329.60	3,158.05	3,304.34	3,364.92	3,654.61
Earnings per share (basic)	(Yen)	407.56	338.40	248.29	139.81	46.12
Earnings per share (diluted)	(Yen)	—	—	—	—	—
Shareholders' equity ratio to total assets	(%)	37.9	37.3	38.9	38.9	32.3
ROE (return on equity)	(%)	13.0	10.4	7.7	4.2	1.3
Price-earnings ratio	(Times)	10.5	10.0	12.2	18.6	62.8
Net cash provided by (used in) operating activities	(Millions of yen)	54,196	50,990	50,637	54,462	44,812
Net cash provided by (used in) investing activities	(Millions of yen)	(58,938)	(38,388)	(24,884)	(33,037)	(147,612)
Net cash provided by (used in) financing activities	(Millions of yen)	11,375	(11,781)	(26,799)	6,338	99,549
Cash and cash equivalents at end of the period	(Millions of yen)	17,651	18,631	16,690	41,354	37,572
Number of employees	(Persons)	20,628	20,620	20,513	20,242	22,474

(Notes)

1. Consumption taxes are not included in Net sales.
2. Diluted earnings per share are not stated because there are no diluted shares.
3. From the fiscal year ended December 31, 2017, the Company introduced the Board Benefit Trust (BBT). The shares held by the trust are recorded under net assets as treasury shares. The number of treasury shares excluded from the number of shares issued as of the consolidated balance sheet date used for the calculation of equity per share includes the number of shares held by the trust. The number of treasury shares excluded from the weighted-average number of shares issued during the fiscal year used for the calculation of earnings per share includes the number of shares held by the trust.
4. The Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, issued on February 16, 2018), etc., since the beginning of the fiscal year ended December 31, 2019. The figures as of December 31, 2018, are based on retrospective application.

## (2) Non-consolidated financial data, etc., of the Company

Fiscal year		120th	121st	122nd	123rd	124th
Year end		December 2017	December 2018	December 2019	December 2020	December 2021
Net sales	(Millions of yen)	232,045	235,394	219,849	195,403	231,550
Ordinary income	(Millions of yen)	30,385	21,294	12,660	7,093	23,966
Net income	(Millions of yen)	26,332	20,616	17,663	6,930	29,811
Capital stock	(Millions of yen)	96,557	96,557	96,557	96,557	96,557
Number of shares issued (common stock)	(Thousands of shares)	95,157	95,157	95,157	95,157	95,157
Net assets	(Millions of yen)	283,596	290,834	297,940	300,089	319,291
Total assets	(Millions of yen)	687,728	675,856	688,683	691,051	829,904
Shareholders' equity per share	(Yen)	2,996.43	3,072.86	3,147.97	3,170.49	3,373.21
Cash dividends per share [Interim dividend per share]	(Yen)	120.00 [60.00]	125.00 [60.00]	100.00 [60.00]	100.00 [50.00]	100.00 [50.00]
Earnings per share (basic)	(Yen)	278.01	217.82	186.62	73.22	314.94
Earnings per share (diluted)	(Yen)	—	—	—	—	—
Shareholders' equity ratio to total assets	(%)	41.2	43.0	43.3	43.4	38.5
ROE	(%)	9.6	7.2	6.0	2.3	9.6
Price-earnings ratio	(Times)	15.3	15.5	16.3	35.6	9.2
Dividend payout ratio	(%)	43.2	57.4	53.6	136.6	31.8
Number of employees	(Persons)	3,503	3,538	3,593	3,662	3,681
Total shareholder return [Comparison index: TOPIX including dividends]	(%)	123.4 [122.2]	101.8 [102.7]	95.2 [121.3]	85.9 [130.3]	96.9 [146.9]
Highest stock price	(Yen)	4,415	4,525	3,635	3,130	3,380
Lowest stock price	(Yen)	3,300	3,150	2,534	1,833	2,492

## (Notes)

- Consumption taxes are not included in Net sales.
- Diluted earnings per share is not stated because there are no diluted shares.
- From the fiscal year ended December 31, 2017, the Company introduced the Board Benefit Trust (BBT). The shares held by the trust are recorded under net assets as treasury shares. The number of treasury shares excluded from the number of shares issued as of the balance sheet date used for the calculation of equity per share includes the number of shares held by the trust. The number of treasury shares excluded from the weighted-average number of shares issued during the fiscal year used for the calculation of earnings per share includes the number of shares held by the trust.
- The Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, issued on February 16, 2018), etc., since the beginning of the fiscal year ended December 31, 2019. The figures as of December 31, 2018, are based on retrospective application.
- The highest and lowest stock prices refer to those of the First Section of the Tokyo Stock Exchange.

## 2. History

Month/Year	Event
February 1908	Kawamura Ink Manufactory is established. (Changes company name to Kawamura Kijuro Shoten in 1912)
May 1932	Shanghai Branch opened.
February 1937	Incorporates Dainippon Printing Ink Manufacturing Co., Ltd.
March 1945	Head office (main plant) is relocated from Honjo to Itabashi (currently Tokyo Plant).
May 1950	Has initial public offering on the Tokyo Stock Exchange.
February 1952	Japan Reichhold Chemicals Inc. (JRC) is established through a joint venture with Reichhold Chemicals, Inc., a U.S. manufacturer of synthetic resins, to manufacture and sell various types of synthetic resins.
July 1960	Establishes Thailand Wathana Industry as a joint venture and starts printing ink production in the suburbs of Bangkok in 1962.
November 1960	JRC goes public over-the-counter.
November 1961	JRC lists its shares on the Second Section of the Tokyo Stock Exchange.
October 1962	Absorbs JRC and changes company name to Dainippon Ink and Chemicals, Incorporated (DIC).
January 1968	DIC-Hercules is formed as a joint venture between DIC and Hercules Inc. of U.S. to operate paper making chemicals business. (In 1992, DIC purchased Hercules Inc.'s entire stake in DIC-Hercules and renamed it as Japan PMC Corporation. In 2003, Japan PMC merged with Seiko Chemical Industries Co., Ltd. to form SEIKO PMC CORPORATION, now a subsidiary of DIC.)
May 1968	Establishes Singapore Dainippon Ink.
October 1968	Develops production method for epoxy resins using an innovative home-grown technology that makes effective use of petroleum fractions.
May 1973	Develops high-performance, long-lasting nematic liquid crystals (LCs).
March 1974	Siam Chemical industry Co., Ltd. was formed as a joint venture in Thailand.
July 1974	Launches spirulina-based nutritional supplement.
March 1979	Acquires U.S. graphic arts materials manufacturer, Polychrome Corp.
October 1980	Introduced polyphenylene sulfide (PPS) compounds technology from Phillips Petroleum.
December 1986	In a bid to reinforce its global competitiveness, DIC acquires the graphic arts materials division of U.S. firm Sun Chemical.
September 1987	Acquires Reichhold Chemicals Inc. of the United States.
December 1996	Japan PMC (now SEIKO PMC) is listed on the Second Section of the Tokyo Stock Exchange.
December 1997	Establishes Kodak Porychrome Graphics (KPG), a joint venture with Eastman Kodak of United States, to operate printing material business.
December 1999	Acquires Coates, the printing inks division of France's TOTALFINA.
July 2003	Establishes DIC (China) Co., Ltd., a holding company for DIC Group companies in the People's Republic of China (PRC).
April 2005	Redeems capital interest in joint venture KPG.
September 2005	Sells stake in Reichhold.
April 2008	On the occasion of its 100-year anniversary, changes company name to DIC Corporation
October 2009	Establishes DIC Graphics Corporation, joint venture with Dai Nippon Printing Co., Ltd. (DNP) integrating DIC's domestic printing ink business and DNP's printing ink business.
January 2012	SEIKO PMC is listed on the First Section of the Tokyo Stock Exchange.
July 2012	Acquires Benda-Lutz Group and enters the effect pigment business on a full scale.
July 2015	Acquires Kingfisher Colours Limited and enters the cosmetic pigment business on a full scale.
January 2017	Enters capital and business alliance with Taiyo Holdings Co., Ltd.
June 2021	Acquires pigments business (Colors & Effects business) from BASF.

### 3. Description of Business

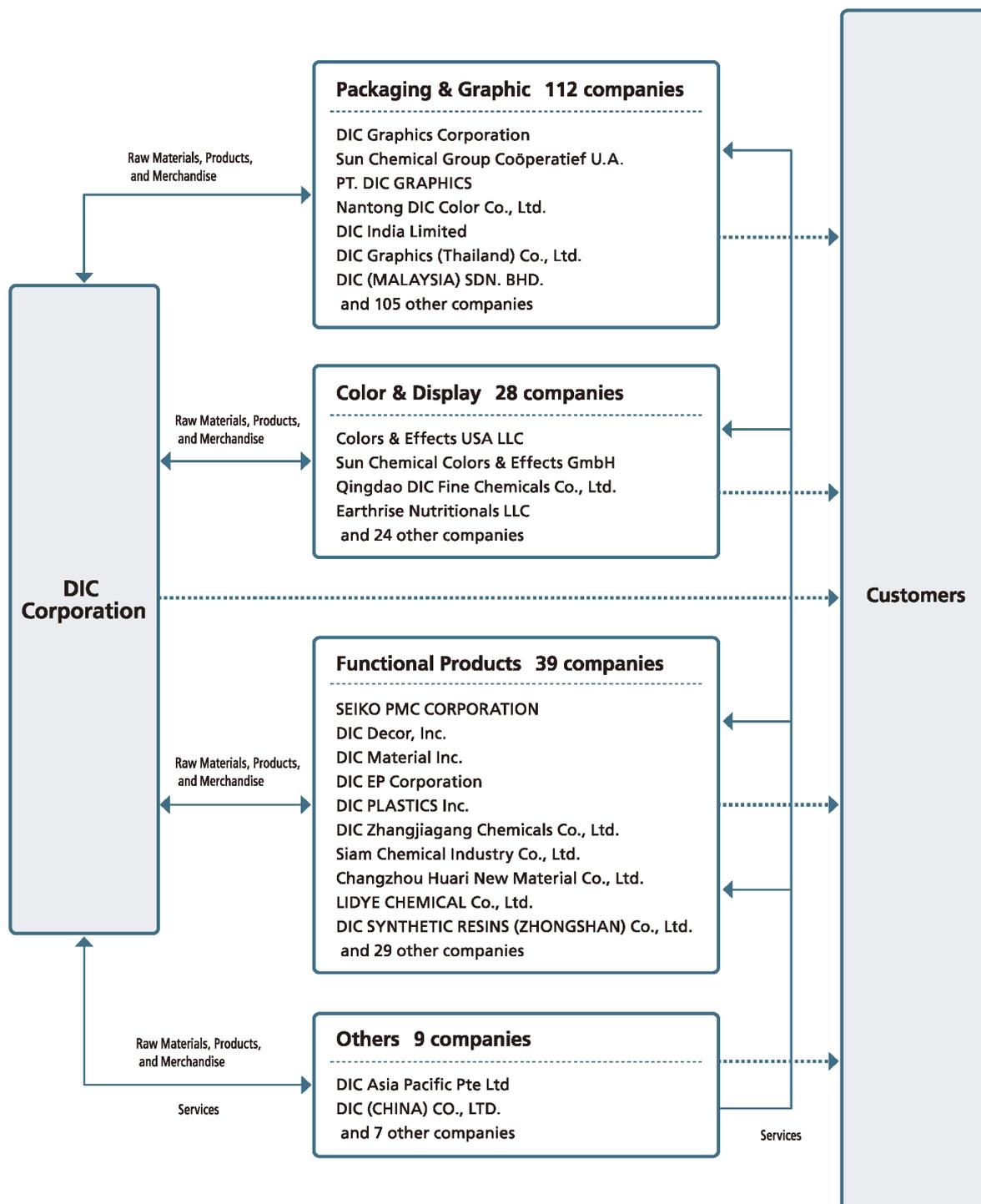
DIC Group consists of DIC Corporation, 168 subsidiaries and 20 affiliates.

The main businesses of DIC Group are as follows.

The following three segments are the same as those stated in “5. Accounting Status 1. Consolidated Financial Statements (1) Notes.”

Segment	Product Division	Principal Products
Packaging & Graphic	Printing Materials	Gravure inks, flexo inks, offset inks, news inks, jet inks, metal decorative inks, printing plates, security inks
	Packaging Materials	Polystyrene, packaging adhesive, multilayer films
Color & Display	Color Materials	Pigments for printing inks, pigments for coatings and plastics, pigments for specialty applications, pigments for color filters, pigments for cosmetics, health foods
	Display Materials	TFT liquid crystals, STN liquid crystals
Functional Products	Performance Materials	Synthetic resins for inks and coatings, molded products, adhesives and textiles (polyester resins, epoxy resins, polyurethane, acrylic resins, plasticizers, phenolic resins), papermaking chemicals, alkylphenols, sulphur chemicals, fiber and textile colorants, metal carboxylate, surfactant for electronics equipment
	Composite Materials	PPS compounds, plastic colorants, interior housing products, industrial adhesive tapes, hollow-fiber membranes and modules, medical diagnostics products, high-performance optical materials

The above is shown in the following structure.



#### 4. Subsidiaries and Affiliates

##### (1) Consolidated subsidiaries

Name	Location	Capital Stock (Millions of yen)	Description of Business	Ownership of Voting Rights (%)	Details of Relationship
<b>Packaging &amp; Graphic</b>					
DIC Graphics Corporation	Chuo-ku, Tokyo	500	Manufacture and sale of printing inks	66.6	The company purchases raw materials for printing ink from the Company. Interlocking directors, etc.: Yes Guaranteed liabilities: Yes
Sun Chemical Group Coöperatief U.A.	Weesp, Netherlands	(Eur 2,469,852 thousand)	Investments and loans to Sun Chemical Group companies	100.0 (100.0)	Interlocking directors, etc.: Yes
Sun Chemical Corp.	New Jersey, U.S.A.	US \$ 500,001 thousand	Manufacture and sale of printing inks and organic pigments	100.0 (100.0)	Interlocking directors, etc.: Yes
PT. DIC GRAPHICS	Jakarta, Indonesia	IDR 450,969 million	Manufacture and sale of printing inks and organic pigments	100.0 (100.0)	The company manufactures organic pigments that the Company sells. Interlocking directors, etc.: Yes
Nantong DIC Color Co., Ltd.	Nantong, China	RMB 325,609 thousand	Manufacture and sale of printing inks, ink intermediates, and organic pigments	100.0 (47.4)	The company purchases raw materials for printing ink from the Company. Interlocking directors, etc.: Yes
DIC India Limited	Kolkata, India	Rs 91,789 thousand	Manufacture and sale of printing inks	71.8 (71.8)	The company purchases raw materials for printing ink from the Company. Interlocking directors, etc.: Yes
DIC Graphics (Thailand) Co., Ltd.	Bangkok, Thailand	Baht 637,000 thousand	Manufacture and sale of printing inks, fiber and textile colorants, and plastic colorants	100.0 (100.0)	The company purchases raw materials for printing ink from the Company. Interlocking directors, etc.: Yes
DIC (MALAYSIA) SDN. BHD.	Selangor, Malaysia	MYR 57,436 thousand	Manufacture and sale of printing inks	100.0 (100.0)	The company purchases raw materials for printing ink from the Company. Interlocking directors, etc.: Yes
Other 95 companies					
<b>Color &amp; Display</b>					
Colors & Effects USA LLC	New Jersey, U.S.A.	(US\$ 252,939 thousand)	Manufacture and sale of pigments and related products	100.0 (100.0)	Interlocking directors, etc.: Yes
Sun Chemical Colors & Effects GmbH	Ludwigshafen am Rhein, Germany	Eur 25 thousand	Manufacture and sale of pigments and related products	100.0 (100.0)	Interlocking directors, etc.: Yes
Qingdao DIC Finechemicals CO., LTD.	Qingdao, China	RMB 93,646 thousand	Manufacturing, sales of liquid crystal materials and R & D	100.0 (10.0)	The company manufactures liquid crystal materials that the Company sells. Interlocking directors, etc.: Yes
Earthrise Nutritionals LLC	California, U.S.A.	US \$ 16,700 thousand	Manufacture and sale of spirulina-related products	100.0 (100.0)	The company sells spirulina products to the Company. Interlocking directors, etc.: Yes Loans receivable: Yes
Other 22 companies					

Name	Location	Capital Stock (Millions of yen)	Description of Business	Ownership of Voting Rights (%)	Details of Relationship
<b>Functional Products</b>					
SEIKO PMC CORPORATION	Chuo-ku, Tokyo	2,000	Manufacture and sale of papermaking chemicals and products for printing ink and recording materials	54.5	The company sells raw materials for printing inks to the Company. Interlocking directors, etc.: Yes
DIC Decor, Inc.	Okegawa-city, Saitama	480	Manufacture and sale of decorative boards, interior housing products, coatings for building materials and decorative sheets	100.0	The company purchases coatings for building materials from the Company. Interlocking directors, etc.: Yes Guaranteed liabilities: Yes
DIC Material Inc.	Chuo-ku, Tokyo	450	Manufacture and sale of unsaturated polyester resins and vinyl ester resins	100.0	The company purchases raw materials for synthetic resins from the Company. Interlocking directors, etc.: Yes
DIC EP Corporation	Sodegaura-city, Chiba	100	Manufacture and sale of PPS neat polymers and large modules for water treatment	100.0	The company produces raw materials for PPS compounds and large membrane modules for water that the Company sells. Interlocking directors, etc.: Yes Loans receivable: Yes
DIC PLASTICS Inc.	Saitama-city, Saitama	100	Manufacture and sale of plastic molded products	100.0	Interlocking directors, etc.: Yes Guaranteed liabilities: Yes
DIC Zhangjiagang Chemicals Co., Ltd.	Zhangjiagang, China	RMB 206,686 thousand	Manufacture and sale of synthetic resins and PPS compounds	100.0 (100.0)	The company purchases raw materials for synthetic resins from the Company. Interlocking directors, etc.: Yes
Siam Chemical Industry Co., Ltd.	Bangkok, Thailand	Baht 130,000 thousand	Manufacture and sale of synthetic resins	100.0 (64.0)	The company purchases raw materials for synthetic resins from the Company. Interlocking directors, etc.: Yes
Changzhou Huari New Material Co., Ltd.	Changzhou, China	RMB 127,019 thousand	Manufacture and sale of synthetic resins	100.0 (40.0)	Interlocking directors, etc.: Yes
LIDYE CHEMICAL CO., LTD.	Taipei, Taiwan	NT \$ 160,000 thousand	Manufacture and sale of synthetic resins	51.0	The company manufactures synthetic resins that the Company sells. Interlocking directors, etc.: Yes
DIC SYNTHETIC RESINS (ZHONGSHAN) CO., LTD.	Zhongshan, China	RMB 135,498 thousand	Manufacture and sale of synthetic resins and metal carboxylate	100.0 (10.0)	Interlocking directors, etc.: Yes
Other 20 companies					
<b>Others</b>					
DIC INVESTMENTS JAPAN, LLC.	Chuo-ku, Tokyo	91	Investments and loans to group companies	100.0	Interlocking directors, etc.: Yes
DIC Asia Pacific Pte Ltd	Singapore, Singapore	S \$ 310,161 thousand	Investment, loans to group companies in Asia-Oceania region and manufacture and sale of The Company products	100.0	Interlocking directors, etc.: Yes
DIC (CHINA) CO., LTD.	Shanghai, China	RMB 915,241 thousand	Investments and loans to group companies in China region	100.0	Interlocking directors, etc.: Yes
Other 6 companies					

## (2) Equity-method affiliates

Name	Location	Capital Stock (Millions of yen)	Description of Business	Ownership of Voting Rights (%)	Details of Relationship
TAIYO HOLDINGS CO., LTD.	Hiki-gun, Saitama	9,612	Set TAIYO Group's broad strategic direction and manage its subsidiaries, R&D, etc.	19.9	Interlocking directors, etc.: Yes
SUNDIC Inc.	Chuo-ku, Tokyo	1,500	Manufacture and sale of plastic sheets	50.0	The company purchases raw materials for plastic sheets from the Company. Interlocking directors, etc.: Yes
Other 18 companies					

## (Note)

- There are six companies that are defined as a specified subsidiary: Sun Chemical Group Coöperatief U.A., Sun Chemical Corp., DIC Asia Pacific Pte Ltd, DIC (CHINA) CO., LTD., Colors & Effects USA LLC, and DIC INVESTMENTS JAPAN, LLC.
- BASF Colors & Effects USA LLC changed its name to Colors & Effects USA LLC on October 18, 2021.
- BASF Colors & Effects GmbH changed its name to Sun Chemical Colors & Effects GmbH on December 6, 2021.
- There are two companies that submit annual securities report: SEIKO PMC CORPORATION and TAIYO HOLDINGS CO., LTD.
- With respect to group companies for which capital stock or the amount corresponding to capital stock is zero, capital reserve (or an amount equivalent to capital reserve) is indicated in parentheses ( ) in the column of capital stock.
- The figures in parentheses ( ) in the column of ownership of voting rights indicate the indirect ownership percentage.
- There are no group companies with liabilities in excess of assets that have a material impact on the consolidated financial statements.
- Although the ownership of voting rights of TAIYO HOLDINGS CO., LTD. is 19.9%, the Company deems it as an affiliate because the Company has substantial influence over it.
- Sun Chemical Group Coöperatief U.A.'s net sales (excluding intercompany sales among consolidated companies) accounts for more than 10% of consolidated net sales and its financial data is as follows. Sun Chemical Group Coöperatief U.A. is settled on a consolidated basis. The following major profit and loss information is also consolidated.

		(Millions of yen)
Sun Chemical Group Coöperatief U.A.	Net sales	385,285
	Ordinary income	10,001
	Net income	(16,550)
	Net assets	274,435
	Total assets	468,854

5. Employees

(1) Consolidated basis

As of December 31, 2021

Segment	Number of employees
Packaging & Graphic	10,634
Color & Display	4,736
Functional Products	5,154
Other	609
Corporate	1,341
Total	22,474

(2) Non-consolidated basis

As of December 31, 2021

Number of employees	Average age (Years)	Average years of service (Years)	Average annual salary (Yen)
3,681	43.9	19.1	7,598,167

Segment	Number of employees
Packaging & Graphic	419
Color & Display	350
Functional Products	1,571
Corporate	1,341
Total	3,681

((Note) Average annual salary includes extra wages and bonuses.

(3) Relationship with labor unions

Labor unions and management maintain amicable relationships based on mutual understanding, and there are no particular matters to disclose.

## II. Business Overview

### 1. Management Policy, Business Environment, Challenges to be Addressed, etc.

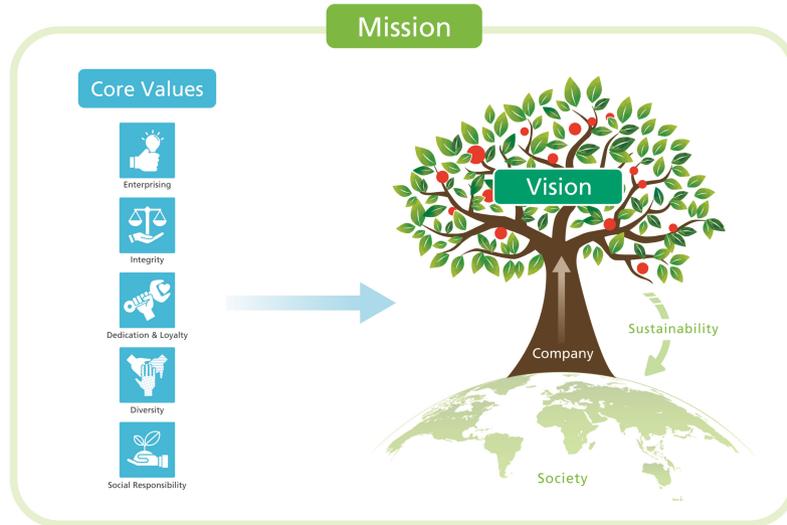
Matters concerning the future in this document are based on judgments as of the end of the current fiscal year. The achievement is not guaranteed.

#### (1) Basic Management Policy

Our group’s basic management philosophy is based on The DIC Way, which is comprised of three elements: “Mission”, “Vision” and “Core Values”.

The “Mission” represents the ultimate ideal that our group seeks, the “Vision” represents the major direction of our group’s business in order to realize the “Mission,” and the “Core Values” represent the action principles that our group employees must always remember and act as guidelines for concrete actions in order to realize the “Mission”.

#### The DIC Way



#### [Mission]

We create enhanced value and utilize innovation to introduce socially responsible and sustainable products.

#### [Redefined Vision]

We improve the human condition by safely delivering color and comfort for sustainable prosperity —Color & Comfort.

We have redefined our Vision to express our goals to deliver greater value through broader innovation, improving the human condition and promoting sustainability for a brighter future.

#### [Core Values]

Enterprising, Integrity, Dedication & Loyalty, Diversity, Social Responsibility

#### Our New Vision

The danger to our planet posed by global climate change has clarified our 10-year goals. There’s widespread consensus on achieving carbon neutrality as a global solution with a clock.

Moreover, the global COVID-19 pandemic has created a new normal that we expect to significantly accelerate the transition to a digital society.

Considering this grand paradigm shift, the DIC Group must now balance maximizing our financial profits with maximizing our social significance. Given these new imperatives, we must share our motivations with our stakeholders externally and promote purpose-driven management internally.

Thus, the DIC Group has redefined our Vision Statement to better express our purpose.

(2) Our group's business environment and challenges to be addressed

To realize its redefined vision statement, the DIC Group has devised a new long-term management plan, DIC Vision 2030. Looking ahead to 2030, the Company has identified five priority business areas in which it will leverage its competitive strengths to contribute to a society that is Green, Digital, and emphasizes Quality of Life (QOL), concentrating its allocation of management resources to transform its business portfolio and help achieve sustainability for the global environment and for society. DIC will also make necessary investments in human capital, its most important resource, with the aim of maturing as a “global company trusted by society.”

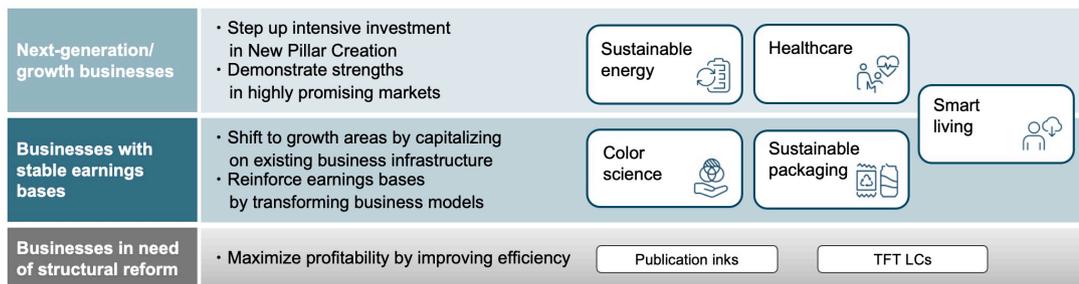
~DIC Vision 2030 Basic Policy~

Safely Delivering Color & Comfort for Sustainable Prosperity  
To Enhance Shareholder Value and Long-Term Corporate Value  
—Establishing a business portfolio beyond ink products and carbon neutrality initiatives—

1. Basic Strategies

1) Business portfolio transformation

- Identify and concentrate allocation of management resources in five priority business areas in which DIC can make important contributions to a society that is increasingly green, digital and QOL-oriented by leveraging its competitive strengths.
- Based on market growth potential and degree of impact on society, identify five priority business areas at the intersection of environment, safety and health (ESH)-related issues and DIC's competitive strengths.
  - Sustainable energy    • Healthcare    • Smart living
  - Color science    • Sustainable packaging
- Establish sustainable energy and healthcare as new business pillars.
- Promote Value Transformation in smart living, color science and sustainable packaging to make business more sustainable.



**Sustainable Energy** 

- Specialty materials that contribute to the realization of the high-performance secondary batteries and fuel cells crucial to an electrified/hydrogen-powered society

e.g. | Materials for secondary batteries and fuel cells  
Functional organic fillers



**Healthcare** 

- High-performance nutritional supplements that support the health of people of all ages
- Healthcare-related products and services that deliver safety, peace of mind and comfort, contributing to a future in which people enjoy an improved QOL

e.g. | High-performance nutritional products  
Natural skin-care materials



**Smart living** 

- High-performance materials and solutions that contribute to the realization of a sustainable society that coexists with a healthy global environment
- Chemical solutions for modern lives that have evolved and improved thanks to digitalization

e.g. | Materials for 5G/6G-enabled devices, resins for next-generation semiconductors, bonding solutions with heterogeneous materials



**Color science** 

- Color that is sustainable and ecologically sound
- Products with outstanding decorative properties that facilitate the creation of comfortable spaces
- Functional materials that leverage dyeing technologies to deliver convenience, satisfaction, safety and peace of mind

e.g. | Functional pigments (for light detection and ranging (LIDAR) signal coatings), heat-blocking coatings, biomass pigments, natural colorants for cosmetics



**Sustainable packaging** 

- Materials that ensure tastier, more enjoyable and safer merchandise reaches consumers
- Materials that deliver both safety/peace of mind and convenience, as well as help reduce food loss
- Product design that contributes to environmental soundness, i.e., is conducive to recycling and uses plant-derived and renewable raw materials

e.g. | Materials with outstanding barrier properties, biomass packaging, recycling systems (chemical recycling, materials recycling)



[Five strategies to transform DIC's business portfolio]

- Reinforce management of human capital
- Make strategic investments (budget ¥230 billion for strategic investments between fiscal years 2022 and 2025)
- Enhance the technology platform
- Establish a more robust global management configuration
- Promote information technology (IT) and digital transformation (DX)

## 2) Sustainability strategies

- Work to expand sustainable products, that is, products that demonstrate unique competitive strengths and respond to ESH-related issues  
Target: Increase sustainable products to 60% of net sales by fiscal year 2030 (fiscal year 2020: 40%)  
Note: DIC positions products that demonstrate unique competitive strengths and respond to ESH-related issues as “sustainable.”
- Promote efforts to reduce CO<sub>2</sub> emissions and help realize a carbon-neutral society  
Target: Achieve carbon neutrality by 2050 and reduce CO<sub>2</sub> emissions by 50% from the fiscal year 2013 level by fiscal year 2030
- Advance efforts to respond to a circular economy, thereby contributing to a sustainable society

## 3) Business Group Strategies

<b>Packaging &amp; Graphic</b>	<ul style="list-style-type: none"> <li>• Looking ahead to the realization of a circular economy, work to develop sustainable next-generation packaging materials with the aim of locking in new demand and expanding the packaging materials business</li> <li>• Take the lead in the market for next-generation sustainable packaging by developing products and proposing solutions compatible with a focus on “5Rs”*</li> <li>• Accelerate shift to high-performance, high-value-added products by, among others, expanding specialty products, promoting digitalization and responding to demand for smart packaging</li> <li>• Build existing businesses into stable revenue sources by securing organic growth and streamlining operations in Asia</li> </ul> <p style="text-align: right; font-size: small;">*Reuse, Reduce, Recycle, Redesign, Reduce CO<sub>2</sub></p>
<b>Color &amp; Display</b>	<ul style="list-style-type: none"> <li>• Establish an unrivaled competitive advantage by swiftly realizing synergies with the Colors &amp; Effects business</li> <li>• Shift focus to materials with outstanding decorative properties and functionality and increase the weighting of sustainable products that deliver both social value and economic value</li> <li>• Redefine “Spirulina business” as “healthcare business”</li> <li>• Redefine “LCs business” as “electronics business”</li> </ul>
<b>Functional Products</b>	<ul style="list-style-type: none"> <li>• Ensure the timely provision of functional materials that support digital innovation</li> <li>• Contribute to a carbon-neutral society by promoting a shift to biomaterials</li> <li>• Cultivate demand by directly communicating the appeal of materials, devices and services to consumers and society at large</li> <li>• Supply polymers that help reduce environmental impact and impart functionality widely across Asia</li> </ul>

## (3) Management Indicators as Targets

The long-term management plan, DIC Vision 2030 sets the following management targets.

(Billions of yen)	2021 Actual	2022 Forecasts	2025 Plan	Comparison between 2025 and 2021
Net sales	855.4	950	1,100	+29%
Operating income	42.9	54	80	+37.1
Operating margin	5.0%	5.7%	7.3%	+2.3pt
Net income attributable to owners of the parent	4.4	28	45	+40.6
EBITDA*	69	88	137	+68
ROIC**	4.8%	5.2%	6.0%	+1.2pt
Net D/E ratio*** (Net D/C ratio)****	1.0 (47.6%)	1.0 (48.7%)	Less than 1 times (Less than 50%)	—

\* EBITDA = Net income attributable to owners of the parent + Total income taxes + (Interest expenses – Interest income) + Depreciation and amortization

\*\* ROIC = Net operating income after tax / (Net Interest-bearing debt + Net assets)

\*\*\* Net D/E ratio = Net Interest-bearing debt / Shareholder's equity

\*\*\*\* Net D/C ratio = Net Interest-bearing debt / (Net Interest-bearing debt + Net assets)

## 2. Business Risks

The DIC Group (“the Group”) has identified material issues, that is, issues with the potential to negatively affect its business performance over the medium to long term. Guided by the growth scenario set forth in its long-term management plan, DIC Vision 2030,<sup>1</sup> launched in 2022, the Group continues taking decisive and efficient steps in response to these issues, working to ensure that these efforts are beneficial to the management of its businesses. The Group also undertakes risk management initiatives with the aim of appropriately and flexibly addressing changes in its operating environment and the diversification of risks, and of swiftly mitigating damage. The Group recognizes risks in three principal categories: externally caused risks and corporate risks, which are managed by the Sustainability Committee, an advisory body, and its subordinate committee, the Sustainability Working Group, and business risks, which are monitored appropriately by, among others, the Executive Committee, established to deliberate important matters related to the execution of business activities, which also implements response measures.

The order in which key risks are described below is based on the DIC Group’s materiality matrix,<sup>2</sup> and the potential impact of each risk on the Group’s businesses and stakeholders is categorized into high, medium or low.<sup>3</sup> As of December 31, 2021, the likelihood that each risk will manifest and have a significant impact on the Group’s operating results or financial position was generally assumed to be medium to low. Nonetheless, the Company has designated a relevant division/department for each risk and promotes countermeasures that will reduce impact in the event the risk does manifest.

Forward-looking statements herein are based on projections as of December 31, 2021, and do not cover all risks that could affect the DIC Group.

### Notes:

1. For more information on DIC Vision 2030, please visit the respective page of the DIC global website (<https://www.dic-global.com/en/ir/management/plan.html>).
2. For more information on the DIC Group’s materiality matrix, please see the DIC Report (<https://www.dic-global.com/en/csr/annual/>).
3. Details of the items in the table, such as the possibility and timing of materialization of each risk, are as follows:

#### **Likelihood** (Potential for future manifestation as of December 31, 2021)

High: Highly likely

Medium: As likely as not

Low: Unlikely

#### **Time horizon** (Expected timing of/period before risk is likely to manifest as of December 31, 2021)

Long term: Five years or more

Medium term: Three to four years

Short term: Within two years

Unknown: Cannot anticipate the timing of its emergence

#### **Risk type** (Categorization by origin as of December 31, 2021)

1: Externally caused risks that are beyond the Group’s control

2: Corporate risks that can be managed through Group management-led countermeasures

3: Business-related risks that should be handled by the relevant divisions/departments

#### **Alignment** (Relationship with business strategies outlined in the DIC Vision 2030 long-term management plan)

A: Business portfolio transformation to achieve growth

B: Strengthening of management infrastructure underpinning global ESG management and safety management

C: Cash flow management

Other: No alignment with business strategies

(1) Risks, the manifestation of which is likely to have a significant impact

Details of risks and impact on performance	Likelihood	Time horizon	Risk type	Alignment	DIC Group countermeasures
<p><b>Risks associated with environment and social changes due to climate change</b></p> <p>Pressure on the global community to achieve carbon neutrality—net zero CO<sub>2</sub> emissions—by fiscal year 2050 continues to intensify rapidly and changes to rules governing competitiveness are expected to transform the socioeconomic system. In June 2021, the DIC Group revised its target for the reduction of CO<sub>2</sub> emissions. The Group now aims to achieve carbon neutrality by fiscal year 2050 and will seek to reduce CO<sub>2</sub> emissions by 50% from the fiscal year 2013 level by fiscal year 2030.</p> <p>The Company recognizes the following climate change–related risks as having the potential to have a significant negative impact on its performance in order to achieve above-mentioned goal:</p> <p>(1) Should carbon pricing be introduced in the future, there is a risk that raw materials, fuel and electric power prices will rise and/or that taxes will be imposed on exported products, making CO<sub>2</sub> emissions a factor that directly affects costs;</p> <p>(2) Should the Group be unable to respond to any sudden changes in demand, resulting from the shift to a circular economy to advance decarbonization, there is a risk of a significant decline in profits generated by its businesses (climate change–related transition risk); and</p> <p>(3) Should climate-related disasters arising from the increasing seriousness or frequency of extreme weather events occur, resulting in product supplies becoming impossible or being delayed due to the suspension of operations at production facilities and the instability of raw material supplies, there is a risk that it will cause a significant decline in profits generated by Group businesses or threaten business continuity (extreme physical risk).</p>	High	Medium to long term	1, 3	A, B	<p>To avoid (mitigate) the impact of demands for the achievement of carbon neutrality by fiscal year 2050 and the anticipated introduction of carbon pricing on costs, the DIC Group is working to reduce CO<sub>2</sub> emissions through aggressive environmental investments and energy conservation measures. In addition, the Group has revised its target for the reduction of CO<sub>2</sub> emissions. The Group now aims to achieve carbon neutrality by fiscal year 2050 and will seek to reduce CO<sub>2</sub> emissions by 50% from the fiscal year 2013 level by fiscal year 2030, and is working toward the creation of a road map to support related efforts. In addition, the Group has introduced an internal carbon pricing (ICP) system to encourage employee awareness of costs associated with CO<sub>2</sub> emissions and to increase incentives for reductions realized.</p> <p>In addition, to respond appropriately to changes in demand caused by climate change, the Group is advancing the development of products that address changes in demand resulting from the shift to a circular economy, developing and promoting products and services that contribute to decarbonization, and aiming to help resolve social imperatives related to climate change.</p> <p>The Group is also promoting the formulation of business continuity plans (BCPs) that include measures to ensure supplies of key raw materials and address extreme physical risks, as well as strengthening countermeasures against climate-related disasters for sites located in coastal areas. The Group will continue to promote active disclosure regarding these activities as a means of communicating with external audiences and securing stakeholders' understanding.</p>

Details of risks and impact on performance	Likelihood	Time horizon	Risk type	Alignment	DIC Group countermeasures
<p><b>Risks associated with portfolio transformation</b></p> <p>Under its long-term management plan, DIC Vision 2030, the DIC Group will concentrate management resources to transform its business portfolio, identifying five priority business areas that will help respond to related issues and contribute to sustainable prosperity for society.</p> <p>Should portfolio transformation be delayed, or if ossification causes a slowing of growth or product life cycles push down the profitability of mature businesses, the Group’s operating results and/or financial position may be affected.</p>	Medium	Short to long term	2, 3	A	<p>Under its long-term management plan, DIC Vision 2030, the DIC Group has designated five priority business areas, namely, sustainable energy, healthcare, smart living, color science and sustainable packaging, in which it will focus efforts through the activities of its business groups and the New Business Development Headquarters. In addition, the Group has established criteria for downsizing or withdrawing from businesses with low profitability that are not in line with its business strategy and will conduct regular reviews and take steps to address risks.</p> <p>The Board of Directors and the Executive Committee periodically check the progress of the business strategies set forth in the long-term management plan and take steps to update existing measures to reflect the business environment, as well as to implement additional measures. To ensure it achieves the goals set forth in its long-term management plan, the Group has positioned the first four years of its long-term management plan—fiscal years 2022–2025—as a period of foundation building and the subsequent five years—fiscal years 2026–2030—as the period for the plan’s realization.</p> <p>DIC is also building a business portfolio that contributes to the sustainable prosperity of society by increasing the weighting of sustainable products, that is, products that demonstrate unique competitive strengths and help address social imperatives.</p>

Details of risks and impact on performance	Likelihood	Time horizon	Risk type	Alignment	DIC Group countermeasures
<p><b>Risks arising from demands for the reduction of environmental impact</b></p> <p>The DIC Group works to reduce the environmental impact of its business activities, including emissions of pollutants and the generation of industrial waste and marine plastics. However, there is a risk that the Group may be required to bear the cost of recovery and/or be liable to pay damages in the event that issues result in its emissions of environmentally harmful substances exceeding expectations. There is also a risk that business continuity may become impossible if the Group fails to respond appropriately to changes in industry standards resulting from stricter environmental regulations or changes in socioeconomic systems aimed at enhancing sustainability.</p>	Medium	Short to Long term	1, 3	A, B	<p>The DIC Group strives to reduce its environmental impact from the perspective of both production and business activities.</p> <p>Production: The DIC Group regularly monitors environmental impact data to manage related risks, as well as to comply with various laws and regulations governing the reduction of environmental impact in the countries and territories where it has production sites. In Japan, the Group has set targets for reducing emissions of environmentally harmful substances and conducts annual monitoring of related efforts.</p> <p>Business activities: The DIC Group is striving to reduce the environmental impact of its products by using the DIC Sustainability Index and to expand its lineup of sustainable products, that is, products that help ensure a healthy global environment and address social imperatives. In particular, the Group is working to increase the weighting of environment-friendly products in its portfolio, including those made with bio-derived materials. The Group is also advancing efforts to respond to a circular economy, through the promotion of chemical recycling.</p>

Details of risks and impact on performance	Likelihood	Time horizon	Risk type	Alignment	DIC Group countermeasures
<p><b>Risks associated with the stagnation of innovation</b></p> <p>The DIC Group believes that responding to ESH-related environmental issues is highly important and is working as one to develop products that contribute to a green, digital, and quality of life (QOL) society. At the same time, the Group is striving to keep pace with the rapidly expanding use of digital technologies and the advance of digital transformation (DX). However, should the Group be unable to develop and launch products that respond to social imperatives, owing to the stagnation of innovation, its growth may slow.</p>	Low	Medium to long term	2, 3	A, B, C	<p>The DIC Group leverages its existing basic technologies, as well as new basic technologies in the areas of inorganic materials and biomaterials design to develop sustainable products for a variety of markets, including next-generation packaging such as biomass packages that contribute to a green society, 5G/6G communication compatible materials and functional inorganic materials that contribute to a digital society, and high-performance nutrition that contributes to a QOL society. In particular, technical departments actively deploy materials informatics (MI) to improve the success rate of product development efforts and shorten the development stage. The Group has also introduced cutting-edge quantum computing technologies through participation in a related consortium. Moreover, the Group eagerly promotes open innovation, including through joint research with external research institutions and the use of corporate venture capital to secure new technologies.</p> <p>Concurrently, in response to social changes brought about by digitalization, including the rapid advance of artificial intelligence and the Internet of Things, among others, the dedicated DX Promotion Department is spearheading active efforts to promote digitalization in production to create smart factories, as well as to transform their business model.</p>

(2) Risks, the manifestation of which is likely to have a moderate impact

Details of risks and impact on performance	Likelihood	Time horizon	Risk type	Alignment	DIC Group countermeasures
<p><b>Pandemics</b></p> <p>In the event of a pandemic, i.e., an infectious disease that has spread worldwide, shipments may decline due to the resulting stagnation of economic activity and falling demand. In addition, government calls for restrictions on business activities and/or the infection of DIC Group employees may necessitate the closure of sales bases or the suspension of operations at R&amp;D sites, making business continuity difficult. Both situations have the potential to affect the Group's operating results and/or financial position.</p>	Medium	Short term	1, 3	B	<p>The DIC Group supplies materials for automobiles, electric power generation and electronics, as well as products that support social infrastructure, including food packaging, across the globe. The Group is promoting the diversification of business risks by transforming its business portfolio in line with its long-term management plan, under which it aims to shift to a robust business structure that is less vulnerable to changes in the macroenvironment. Also, the Group's production, R&amp;D, and other operations are located globally in Japan, China, Asia/Oceania, Europe, North America, and Central and South America to reduce the risk of closure or suspension of operations.</p> <p>To protect the safety and health of DIC Group employees from COVID-19, the Group has established guidelines for preventing infection at its production sites and offices. These guidelines outline a variety of measures, including the introduction of staggered working hours and rotating shifts, social distancing and thorough disinfection. The Group is also expanding and reinforcing its IT infrastructure, positioning it to create paperless work environments through the digitizing of information and a shift to electronic approval procedures, and is encouraging the use of telework arrangements, which enable employees to work at home or in other remote locations, and implementing preventative measures in the workplace.</p>

Details of risks and impact on performance	Likelihood	Time horizon	Risk type	Alignment	DIC Group countermeasures
<p><b>Risks associated with product quality issues</b></p> <p>In the event of product defects, product liability incidents or other matters that lead to the suspension of shipments or production, or to product recalls or liability for damages, the DIC Group’s operating results and/or financial position may be affected. Such incidents may also lead to a loss of social credibility.</p>	Medium to low	Unknown	2, 3	A, B	<p>The DIC Group’s quality policy is “Contribute to the prosperity of customers and society by consistently providing reliable products.” Every year, the president of DIC reminds Group employees of the importance of quality assurance. Recognizing compliance as its top priority value, the Group seeks to ensure each employee feels a sense of ownership concerning quality and works to ensure the proper functioning of the Group’s quality management system (QMS) and improve quality.</p> <p>The Group’s quality assurance framework, which was centralized in fiscal year 2021, enables it to manage pertinent Group-wide initiatives in an integrated manner and to grapple earnestly with the management of risks associated with product quality from the perspective of customer satisfaction. The Quality Committee, which answers directly to the president, monitors and oversees these and other Group-wide quality-related efforts.</p> <p>In fiscal year 2021, the DIC Group conducted a review of relevant manuals with the goal of exercising its responsibility to society, should defects be found in products that have already shipped.</p>

Details of risks and impact on performance	Likelihood	Time horizon	Risk type	Alignment	DIC Group countermeasures
<p><b>Risks related to the procurement of raw materials</b></p> <p>The DIC Group works to ensure sustainable procurement from both a short-term perspective and a medium-term perspective to long-term perspective, placing equal emphasis on quality, price and supply stability.</p> <p>If the impact of international commodities' prices causes raw material prices to rise or it becomes difficult to procure raw materials as a result of shifts in the supply–demand balance, or if accidents or issues involving raw materials suppliers occur, the Group's operating results and/or financial position may be affected.</p> <p>In addition, from a medium- to long-term perspective, the procurement of raw materials from suppliers that are not promoting sustainability (i.e., ESG initiatives) has the potential to hinder business continuity for the Group.</p>	Medium	Short to long term	1, 2, 3	A, B	<p>The DIC Group aims to ensure the stable procurement of low-priced raw materials by cultivating alternative sources and promoting multiple company purchasing, as well as by entering into long-term supply contracts.</p> <p>From a medium- to long-term perspective, the Group promotes procurement from excellent companies that advance sustainability initiatives while also working to ensure the stringent management of chemical substances and the reduction of environmental impact, in line with the DIC Group Sustainable Procurement Guidelines, which it compels suppliers to observe.</p>
<p><b>Risks associated with interest rate fluctuations</b></p> <p>Interest-bearing debt is a source of financing for the DIC Group. Accordingly, any sudden fluctuations in financial markets have the potential to affect the Group's business performance and/or financial position.</p>	Medium	Short to medium term	1	C	<p>The DIC Group has adopted the net debt-to-equity (D/E) ratio to gauge financial soundness and is working to maintain/strengthen its financial position and reduce interest-bearing debt. The Group is also taking advantage of current low interest rates to avoid risks associated with future interest rate fluctuations and reduce its interest burden, including increasing the procurement of funds at fixed rates, while closely monitoring interest rate trends around the world.</p>
<p><b>Risks associated with exchange rate fluctuations</b></p> <p>Because the DIC Group conducts business activities around the world, foreign currency fluctuations impact the line items in the financial statements of overseas subsidiaries after translation into yen. Significant fluctuations thus have the potential to affect the Group's business performance and/or financial position. In addition, because imports, exports and other transactions denominated in foreign currencies are susceptible to the impact of foreign currency fluctuations, so is the Group's business performance.</p>	Medium	Short term	1	C, Other	<p>Under the leadership of the corporate headquarters in Japan, the DIC Group has established regional foreign exchange risk management systems and is working to better grasp the impact of foreign currency fluctuations in foreign exchange rates on its business performance, as well as grasp the impact of overseas subsidiaries' foreign currency–denominated transactions. In addition, the Group is taking measures to mitigate such risk, including using foreign currency forward contracts and other hedging instruments, as well as multicurrency financing and investments.</p>

Details of risks and impact on performance	Likelihood	Time horizon	Risk type	Alignment	DIC Group countermeasures
<p><b>Risks arising from the failure of acquisitions and capital alliances to proceed as expected</b></p> <p>If the integration and cooperation efforts implemented by the DIC Group are insufficient or do not proceed as anticipated, resulting in the failure to realize initially expected benefits, the Group's operating results and/or financial position may be affected.</p>	Low	Medium to long term	2, 3	A, C	The DIC Group works to address risks by conducting in-house investigations and thorough due diligence in collaboration with external organizations, to identify and address risk factors in advance. The Group also promotes Group-wide post-merger integration initiatives and implements actions aimed at realizing synergies.
<p><b>Risks associated with information security</b></p> <p>In the event of data loss or falsification resulting from cyberattacks, information leaks, or business system interruptions or the failure or malfunction of facilities/equipment attributable to disasters or impediments, there is a possibility that the Group's businesses will stagnate and/or business opportunities will be lost.</p>	Low	Unknown	2	B	The DIC Group works continuously to address risks by strengthening the security functions of its information control infrastructure, improving BCPs for IT (including disaster recovery, backup and systems-related measures), and upgrading and providing information security training.
<p><b>Risks associated with compliance violations</b></p> <p>The DIC Group conducts business activities around the world and is subject to various laws and regulations pertaining to commercial transactions, safety, environment and chemical substances. Violations of laws and regulations may result in order to suspend business, fines and/or liability for damages, which may affect the Group's operating results and/or financial position.</p>	Low	Unknown	2	A, B, Other	<p>In addition to laws and regulations, the Group has established the DIC Group Code of Business Conduct as a set of compliance standards to be observed when conducting business. Whenever the occasion arises, the president of DIC makes a point of communicating the importance of compliance, as well as the need to prioritize compliance over business, to all employees, including executives. The Group works to deepen employee awareness of the importance of compliance through training and e-learning employing actual case studies as examples. In addition, the Group has established a system that enables people with related questions to seek consultation and promotes the use of the Group's whistle-blowing system, which facilitates the prompt discovery and correction of compliance violations through audits by departments independent of the department in charge.</p> <p>Pertinent departments review any amendments to laws and regulations in cooperation with external experts and take whatever steps are necessary to respond.</p>

Details of risks and impact on performance	Likelihood	Time horizon	Risk type	Alignment	DIC Group countermeasures
<p><b>Risks associated with inadequate corporate governance</b></p> <p>DIC Group companies operate not only in Japan but also in the People’s Republic of China (PRC), the Asia–Pacific region, North America, Central and South Americas, Europe, the Middle East and Africa. Inadequate corporate governance at such companies may result in misconduct, embezzlement, creative accounting, or legal or regulatory violations, which may harm the Group’s reputation and/or its social credibility.</p>	Low	Unknown	2	B, Other	<p>The DIC Group has formulated The DIC Way, which represents its fundamental management philosophy, centering on its mission of creating enhanced value and utilizing innovation to introduce socially responsible and sustainable products. The Group has also established the DIC Group Code of Business Conduct, which sets forth compliance standards. Both The DIC Way and the DIC Group Code of Business Conduct have been translated into other key languages, creating a regulatory environment appropriate to guide correct decision making and conduct by employees around the world. All Group companies are endowed with the decision-making authority and rules necessary for corporate governance.</p> <p>The DIC Group has established an internal control configuration encompassing Group companies in Japan, the PRC, the Asia–Pacific region, North America, Central and South America, Europe, the Middle East and Africa and regularly conducts internal audits to ensure Group companies are complying with laws and regulations and that the Group’s corporate governance system is functioning effectively.</p> <p>All DIC Group employees are made aware of the internal notification system for reporting employee misconduct, thereby creating an environment that discourages employees from engaging in such conduct.</p>

Details of risks and impact on performance	Likelihood	Time horizon	Risk type	Alignment	DIC Group countermeasures
<p><b>Risks associated with securing of human capital</b></p> <p>To sustain growth, the DIC Group recognizes the need to secure and retain the talented people necessary to its ability to conduct its operations. In particular, there is an increasing need for human capital who are capable of playing an active role globally and who possess a high level of expertise. Competition to recruit such human capital is intensifying, while the retention of such personnel is also a major challenge. Should the Group be unable to recruit, retain and foster talented human capital on an ongoing basis, it may impact the Group's performance.</p>	Low	Short to long term	2	A, B	<p>To recruit necessary human capital in a timely manner, the DIC Group is strengthening not only its periodic simultaneous recruitment of new graduates but also its hiring of highly specialized, work-ready mid-career individuals. To prevent the exodus of talented employees, the Group is promoting diversity, introducing a multitrack personnel system that empowers a broad range of human capital to maximize their capabilities, enhancing career support systems, strengthening talent management, expanding human capital development systems and implementing work style reform measures to realize flexible work arrangements.</p>

(3) Risks, the manifestation of which is likely to have a minimal impact

Details of risks and impact on performance	Likelihood	Time horizon	Risk type	Alignment	DIC Group countermeasures
<p><b>Risks associated with water resources</b></p> <p>The DIC Group seeks to ensure the effective use of water resources across its business activities. However, should water shortages and/or the deterioration of water quality at supply sources exceed expectations, production activities may be constrained and profitability may decline due to resulting increases in water prices.</p>	Low	Long term	2, 3	A, B	<p>The DIC Group monitors data on water withdrawn and discharged at each of its sites to ascertain the use of water resource use. In addition, Group sites in Japan, the PRC and the Asia-Pacific region evaluate information on water resources and conduct risk assessments to determine the operational status of production facilities in their respective regions, and manage the status of countermeasures. By promoting the reuse and recycling of water, the Group is also striving to reduce the volume of water it uses.</p>
<p><b>Risks associated with disasters and accidents</b></p> <p>In the event of a large-scale disaster or a disaster or accident associated with its business activities that results in casualties or property damage, leading to the suspension of plant operations and/or business activities, the DIC Group's operating results and/or financial position may be affected. In addition, the occurrence of a facility accident or disaster may harm the Group's reputation in the local community, as well as affect its business activities.</p>	Low	Unknown	1, 2, 3	Other	<p>Having prepared rules for managing major crises and manuals for specific risks (e.g., large-scale natural disasters, such as a major earthquake, typhoon or flood; a pandemic; a plant explosion; and fire or water damage) for use Group-wide, the DIC Group has formulated BCPs for individual product divisions.</p> <p>From the perspectives of safety and health and the prevention of disasters, the DIC Group, as a responsible corporate citizen, recognizes that care for ESH is fundamental to management and is promoting related initiatives in all aspects of its businesses. The Group thus promotes occupational safety and health, security and disaster prevention measures to foster a "Safety First" philosophy Group-wide and on the part of every employee, formulating and disseminating policies and creating a system that enables management to take the lead in advancing safety initiatives, regular audits, and active ongoing education and training.</p>

Details of risks and impact on performance	Likelihood	Time horizon	Risk type	Alignment	DIC Group countermeasures
<p><b>Risks associated with political and geopolitical changes</b></p> <p>In the event of unexpected circumstances arising from political, social or other conditions, issues such as cost increases attributable to legal and regulatory changes, the suspension of product and/or raw materials imports and exports and/or related monetary remittances, and/or supply chain interruptions may affect the DIC Group's operating results and/or financial position. For example, issues such as rapid cost increases attributable to the suspension of product and/or raw materials imports and exports and increased tariff rates due to trade friction between the United States and the PRC and crude oil price hikes due to conflicts and political instability in the Middle East may have a financial impact on the Group.</p> <p>As for the impact of the Russian and Ukrainian situations triggered by the Russian invasion in and after February 2022, if the conflict were to end in a short period of time, the impact would be limited. However, if the conflict were to be prolonged, there is a possibility that it will have certain impacts on the Group's performance and financial situation.</p>	Low	Unknown	1	Other	<p>In addition to overall management by corporate headquarters in Japan, regional headquarters' everyday management includes monitoring risks with the potential to impact the DIC Group's ability to conduct business and function in each of the countries and territories in which the DIC Group operates.</p> <p>The Group also works to address country risk by formulating BCPs for production and sales and a system for facilitating multiple-company purchasing.</p> <p>To analyze supply chain-related issues, the Group makes effective use of its global network to reduce risk.</p>
<p><b>Tax risks</b></p> <p>The DIC Group conducts sales, production and other business activities, as well as internal transactions in countries and territories around the world. The Group pays close attention to transfer price taxation and other international tax risks. However, should the Group be subjected to additional or double taxation due to differences in interpretations among tax authorities in different countries and territories, the Group's operating results and/or financial position may be affected.</p>	Low	Unknown	1	Other	<p>Under the leadership of the corporate headquarters in Japan, the DIC Group pays appropriate taxes in accordance with the tax laws of each of the countries and territories in which it operates and maintains required transfer pricing documentation. The Group has also formulated an official approach to tax with the aim of ensuring highly transparent tax management.</p>

Details of risks and impact on performance	Likelihood	Time horizon	Risk type	Alignment	DIC Group countermeasures
<p><b>Risks related to intellectual property</b></p> <p>There is a possibility that the DIC Group's technological assets and know-how may be leaked to third parties due to unforeseen circumstances. In addition, in the event of a dispute regarding intellectual property, the impact on product sales and/or costs may affect the Group's operating results.</p>	Low	Unknown	2, 3	A, Other	<p>In line with its Basic Policy on Information Security, the DIC Group has established confidential information management regulations and promotes the stringent management of technical information. In the development of products, the Group also requires strict intellectual property rights (patents, trademarks, etc.) investigations to prevent disputes.</p>

### 3. Management's Analysis of Financial Position, Operating Results and Cash Flows

Matters concerning the future in this document are based on judgments as of the end of the current fiscal year and are not guaranteed to be achieved.

#### (1) Summary of operating results

##### ① Operating results

Operating results for the current fiscal year are as follows.

(Billions of yen)

	FY2020	FY2021	Change (%)	Change (%) [Local currency basis]
Net sales	701.2	855.4	22.0%	18.2%
Operating income	39.7	42.9	8.1%	7.1%
Ordinary income	36.5	43.8	20.0%	—
Net income attributable to owners of the parent	13.2	4.4	-67.0%	—
EBITDA	55.6	69.0	24.1%	—
¥/US\$1.00 (Average rate)	106.37	109.75	3.2%	—
¥/EUR1.00 (Average rate)	121.43	129.73	6.8%	—

EBITDA: Net income attributable to owners of the parent + Total income taxes + (Interest expenses - Interest income) + Depreciation and amortization

In the fiscal year ended December 31, 2021, consolidated net sales advanced 22.0%, to ¥855.4 billion. If the results of the C&E pigments business (formerly BASF SE's Colors & Effects business), included in the scope of consolidation since July 2021, were discounted, the increase would have been 15.3%. With progress in the drive to vaccinate people against COVID-19 and the effectiveness of vaccinations, the effect of the pandemic on economic activity eased, particularly in developed countries and territories. Against a backdrop of buoyant digital-related demand worldwide, shipments remained robust, including those of high-value-added products such as materials for use in semiconductor devices and in electrical and electronics equipment. Shipments of materials for use in daily necessities such as food packaging stayed firm, while those of pigments for cosmetics showed signs of recovering. While certain products and regions continued to feel the brunt of falling automobile production, a result of semiconductor device shortages, shipments of materials for automotive applications were steady overall.

Operating income, at ¥42.9 billion, was up 8.1%. If the impact of the C&E pigments business was excluded, the gain would have been 31.6%. This was despite the impact of elevated raw materials costs, a consequence of rising crude oil prices, among others, and higher logistics costs, attributable to supply chain stagnation, throughout the period, and was due to solid shipments in all segments, particularly of high-value-added products, and ongoing efforts to reduce the influence of escalating costs by adjusting sales prices. Nonetheless, operating income growth was hindered by flagging sales in the C&E pigments business—reflecting shipment delays attributable to the fact that it took some time to build a logistics configuration following the integration of the new business—as well as by an increase in operating costs to resolve this business' logistics-related issues, among others.

Ordinary income rose 20.0%, to ¥43.8 billion, owing to expanded equity in earnings of affiliates and foreign exchange gains.

Net income attributable to owners of the parent tumbled 67.0%, to ¥4.4 billion. The principal factor behind this steep decrease was the reversal of deferred tax assets in the United States and the recording of an equivalent amount as income taxes—deferred, as detailed in the press release titled “Notice Regarding Revision of Consolidated Operating Results Forecasts for Fiscal Year 2021 and Reversal of Deferred Tax Assets,” published on February 7, 2022.

Earnings before interest, taxes, depreciation and amortization (EBITDA) reached ¥69.0 billion, up 24.1%.

The results of each segment are as follows.

(Billions of yen)

Segment	Net sales				Operating income (loss)			
	FY2020	FY2021	Change (%)	Change (%) [Local currency basis]	FY2020	FY2021	Change (%)	Change (%) [Local currency basis]
Packaging & Graphic	388.4	439.8	13.2%	9.8%	21.8	21.6	-0.7%	-0.2%
Color & Display	105.8	167.2	58.0%	51.7%	8.4	4.0	-53.2%	-49.3%
Functional Products	236.0	283.3	20.1%	17.1%	17.1	26.2	53.2%	49.4%
Others, Corporate and eliminations	(29.0)	(34.9)	—	—	(7.6)	(8.9)	—	—
Total	701.2	855.3	22.0%	18.2%	39.7	42.9	8.1%	7.1%

[Packaging & Graphic]

	FY2020	FY2021	Change (%)	Change (%) [Local currency basis]
Net sales	¥388.4 billion	¥439.8 billion	13.2%	9.8%
Operating income	¥21.8 billion	¥21.6 billion	-0.7%	-0.2%

Segment sales rose 13.2%, to ¥439.8 billion. In materials for food packaging, sales of packaging inks were bolstered by the continued expansion of shipments in the Americas and Europe, and signs of a recovery in demand in Japan. Sales of publication inks, which center on inks for commercial printing and news inks, were also up—despite a decline in demand for the former in Japan, notably for printing pamphlets and event-related printed materials—thanks to higher sales in Asia, bolstered by persistently robust market conditions, and in the Americas and Europe, backed by firm demand. Sales of jet inks for digital printing increased sharply, buttressed by brisk sales throughout the year for industrial applications, including outdoor signage (billboards and posters) and banners, and for commercial printing, as well as by the positive impact of the June 2020 acquisition of a business engaged in the production of jet inks for digital printing on textiles.

Segment operating income edged down 0.7%, to ¥21.6 billion. Notwithstanding ongoing efforts to counter the heightened influence of escalating raw materials costs—a result of rising raw materials prices—worldwide, operating income was down in Japan and Asia, as a consequence of which the overall result remained essentially level with the previous fiscal year.

[Color & Display]

	FY2020	FY2021	Change (%)	Change (%) [Local currency basis]
Net sales	¥105.8 billion	¥167.2 billion	58.0%	51.7%
Operating income	¥8.4 billion	¥4.0 billion	-53.2%	-49.3%

Segment sales climbed 58.0%, to ¥167.2 billion. If the impact of the C&E pigments business was excluded, the increase would have been 13.9%. Among existing businesses, sales of color materials rose, as shipments of pigments for cosmetics continued showing signs of recovering. In display materials, sales of pigments for color filters were up, with shipments remaining high, supported by steady demand for use in liquid crystal displays (LCDs), although sales of thin-film transistor liquid crystals (TFT LCs) decreased, owing to intensified competition with manufacturers in the People's Republic of China (PRC). In pigments for specialty applications, sales of effect pigments remained on an uptrend, bolstered by higher demand in Europe for autoclaved aerated concrete for construction-related applications. In addition to amplified results in these existing businesses, segment sales were boosted by the inclusion of the results of the C&E pigments business. Sales in the C&E pigments business flagged, reflecting shipment delays attributable to a tight supply-demand situation in the area of maritime shipping arising from a global container shortage, as well as to the fact that it took some time to build a logistics configuration following the integration of this new business.

Segment operating income fell 53.2%, to ¥4.0 billion. If the impact of the C&E pigments business was disregarded, this would have been a gain of 56.8%. Despite a recovery in shipments of pigments for cosmetics and persistently firm shipments of high-value-added products such as pigments for color filters and effect pigments, numerous factors, including sluggish sales in the C&E pigments business, an increase in operating costs to resolve this business' logistics-related issues and one-time costs associated with the integration of this business, combined to push operating income down.

[Functional Products]

	FY2020	FY2021	Change (%)	Change (%) [Local currency basis]
Net sales	¥236.0 billion	¥283.3 billion	20.1%	17.1%
Operating income	¥17.1 billion	¥26.2 billion	53.2%	49.4%

Segment sales advanced 20.1%, to ¥283.3 billion. Shipments of epoxy resins, the principal application for which is semiconductor devices, were brisk overall for use as sealing materials in electronics equipment. Shipments of industrial-use tapes, used primarily in smartphones and other mobile devices, were firm. Sales of all environment-friendly resins\* increased, led by robust shipments of products for a wide range of applications, including electrical and electronics equipment, and building materials, although shipments of certain materials for use in automobiles in Asia flagged. Sales of polyphenylene sulfide (PPS) compounds—uses for which continue to multiply, underpinned by the trend toward lighter and more electrified vehicles—were up in all regions, as orders remained solid, particularly in Japan, although concerns remained over the impact of a shortage of semiconductor devices in the automobile industry.

Segment operating income leapt 53.2%, to ¥26.2 billion. This sharp gain was despite elevated raw materials costs and reflected continued brisk shipments of epoxy resins and other high-value-added products and efforts to adjust sales prices.

\* DIC uses the term “environment-friendly resins” to describe strategic resins designed to improve both environmental performance and functionality. These include waterborne, ultraviolet (UV)-curable, polyester, acrylic and polyurethane resins.

② Cash flow

[Net cash provided by (used in) operating activities] ¥44.8 billion

(¥54.5 billion for the previous consolidated fiscal year)

In the current consolidated fiscal year, income before income taxes and non-controlling interests was ¥32.1 billion and depreciation and amortization was ¥37.4 billion. In addition, decrease of net cash flow was due to ¥13.7 billion payment to income tax and a decrease of ¥16.1 billion of working capital. As a result, net cash provided by operating activities amounted to ¥44.8 billion.

[Net cash provided by (used in) investing activities] ¥(147.6) billion

(¥(33.0) billion for the previous consolidated fiscal year)

In the current consolidated fiscal year, ¥38.6 billion was used for the purchase of facilities and ¥124.1 billion was used for acquisition of subsidiary shares. On the other hand, increase of ¥11.6 billion was due to proceeds from sales of subsidiaries' and affiliates' securities. As a result, net cash used in investment activities was ¥147.6 billion.

[Net cash provided by (used in) financing activities] ¥99.5 billion

(¥6.3 billion for the previous consolidated fiscal year)

In the current consolidated fiscal year, with an increase of ¥112.1 billion through borrowings, etc., ¥9.5 billion dividends from surplus were paid. As a result, net cash provided by financing activities amounted to ¥99.5 billion.

(Changes in cash flow indicators)

		FY2019	FY 2020	FY 2021
Equity ratio (%)	(%)	38.9	38.9	32.3
Equity ratio at market value	(%)	35.8	30.1	25.6
Interest-bearing debt to cash flow ratio	(Years)	5.0	4.9	8.6
Interest coverage ratio	(x)	11.9	18.6	20.5

(Note) 1. The formula for each indicator is as follows:

Equity ratio (%)	(Net assets - Non-controlling interests)/Total assets
Equity ratio at market value	Market capitalization (closing price at the end of the period x number of shares issued at the end of the period (after deducting Treasury shares))/Total assets
Interest-bearing debt to cash flow ratio	Interest-bearing debt/Operating cash flow
Interest coverage ratio:	(Operating income + Interest income + Dividends income) / Interest expenses

2. Indicators are calculated on a consolidated basis.

3. Interest-bearing debt includes Loans payable, Bonds payable and Lease obligations reported on the consolidated balance sheet.

Net cash provided by (used in) operating activities in the consolidated statement of cash flows is used for operating cash flow. For Interest expenses, Interest expenses in the consolidated statement of income are used.

③ Production, order received and sales performance

(a) Production

Production volume by segment during current fiscal year ended December 31, 2021 is as follows.

Segment	Amount (Millions of yen)	YoY (%)
Packaging & Graphic	441,730	125.7%
Color & Display	173,689	172.3%
Functional Products	288,347	124.1%
Total reportable segments	903,766	132.0%
Other	53	132.5%
Total	903,819	132.0%

(Note) 1. Production volume is calculated using the average selling price during the fiscal year.

2. The amounts stated above do not include consumption taxes.

(b) Orders received

The Group does not have any applicable items as it mainly conducts expected production.

(c) Sales results

Sales results for current fiscal year ended December 31, 2021 by segment are as follows.

Segment	Amount (Millions of yen)	YoY (%)
Packaging & Graphic	439,807	113.2%
Color & Display	134,970	170.0%
Functional Products	280,161	120.3%
Total reportable segments	854,938	122.0%
Other	441	105.9%
Total	855,379	122.0%

(Note) 1. Intersegment transactions are eliminated.

2. Consumption taxes are not included in the above figures.

(2) Analysis of Financial Position and Operating Results from the Management's Perspective

① Analysis of operating results

Analysis of operating results is described in “(1) Summary of Operating Results ① Operating Results”.

② Analysis of financial position

Total assets increased ¥253.5 billion from the end of the previous fiscal year, to ¥1,071.5 billion, mainly due to the acquiring of the shares and assets of the Colors & Effects business from BASF SE of Germany. Total liabilities increased ¥223.9 billion from the previous fiscal year to ¥690.5 billion, mainly due to an increase in interest-bearing debt. In addition, Net assets increased ¥29.6 billion year from the previous fiscal year to ¥381.0 billion, mainly due to the impact of foreign exchange rate.

③ Capital resources and liquidity

(a) For an analysis of the Company's cash flows in the fiscal year ended December 31, 2021, please see “(b) Cash flows” in “(1) Overview of business results.”

(b) Financial strategy

In its long-term management plan, DIC Vision 2030, the DIC Group has selected net D/E ratio as a key indicator of financial health, setting forth a target of maintaining its net D/E ratio of at least 1.0 times. Although net interest-bearing debt as of December 31, 2021, was up from the end of the preceding fiscal year, a consequence of the aforementioned acquisition of a pigments business from Germany's BASF, the Company expects its net D/E ratio as of December 31, 2022, will remain at approximately 1.0 times, thanks to the steady generation of cash from operating activities and healthy retained earnings. The adjusted net D/E ratio, after recognition of hybrid equity credit attributes, is expected to be in the area of 0.9 times.

Notes:

1. Interest-bearing debt is calculated by adding together loans, bonds and lease obligations included in the consolidated balance sheet.
2. Net D/E ratio = Net interest-bearing debt / Shareholder's equity
3. Net interest-bearing debt = Interest-bearing debt – Cash and deposits

(c) Principal demands of funds

The principal applications of working capital are the purchase of raw materials, manufacturing costs and operating costs, including selling, general and administrative expenses. The principal applications of funds for investment include capital investment, purchase of shares or investments in capital of subsidiaries, and purchase of shares or investments of affiliates. For information on capital investment, please see “3. Investments in facilities” in “III. Capital Investment.”

(d) Fund raising

In response to demand for funds, the DIC Group secures funds by obtaining short-term loans from financial institutions and issuing commercial paper, as well as utilization of cash on hand for working capital, and procures long-term funds for capital investment, among others, through long-term borrowings and the issue of corporate bonds.

As of December 31, 2021, the Company's net interest-bearing debt was ¥346.0 billion, and the net D/E ratio was 1.0 times. Because the Company maintained a high level of cash on hand over the course of the period to mitigate the impact of financial market turmoil caused by COVID-19, cash and deposits at fiscal year end amounted to ¥38.3 billion.

#### ④ Significant accounting estimates and underlying assumptions

The DIC Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan. In preparing these consolidated financial statements, it is necessary for the Company to make forward-looking estimates that impact the reported amounts of assets and liabilities, as well as income and expenses, and disclosure in the current fiscal year. Management makes rational judgments regarding these estimates, taking into account past results and various other factors, as of the end of the current fiscal year. However, these estimates are subject to uncertainties and as a result, actual results may differ.

For more information on estimates used in the preparation of the Company's consolidated financial statements, please see "(1) Consolidated Financial Statements [Notes] (Accounting Estimates)," within "1. Consolidated Financial Statements," in "V. Financial Information."

Accounting estimates regarding the spread of COVID-19 are described in "(1) Consolidated Financial Statements [Notes] (Additional Information)," within "1. Consolidated Financial Statements," in "V. Financial Information."

#### (3) Management policies • Management strategies, objective indicators for determining the status of achievement of management objectives, etc.

The achievement status of the DIC 111 medium-term management plan for the current fiscal year is as follows:

(Billions of yen)

	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2021 Plan
Net sales	768.6	701.2	855.4	950.0
Operating income	41.3	39.7	42.9	70.0
Operating margin	5.4%	5.7%	5.0%	7.4%
Net income attributable to owners of the parent	23.5	13.2	4.4	45.0
EBITDA (Note)	67.4	55.6	69.0	102.0
EBITDA to net sales ratio	8.8%	7.9%	8.1%	10.7%
ROE	7.7%	4.2%	1.3%	10 - 12%

(Note) EBITDA = Net income attributable to owners of the parent + Total income taxes + Interest expenses - Interest income + Depreciation and amortization

#### 4. Material Business Agreements, etc.

Not applicable.

## 5. Research and Development Activities

With the aim of achieving its Color & Comfort by Chemistry management vision, the DIC Group is working to add depth to and compound its basic technologies, including those in the areas of optics and color, organic molecular design, polymer design and dispersion, to build a portfolio of next-generation products and new technologies to drive sustainable growth.

DIC's R&D organization in Japan comprises the Technical Management Unit, which is responsible for R&D connected directly to businesses; the R&D Management Unit, which is responsible for adding depth to existing and fostering new basic technologies; and the New Business Development Headquarters, which is charged with creating strategic new businesses and commercializing business units' next-generation product groups. These entities promote the global development of products and technologies in collaboration with the R&D components of DIC Group companies around the world. These include DIC Graphics Corporation in Japan; the Sun Chemical Group's research centers in the United States, the United Kingdom and Germany; Qingdao DIC Finechemicals Co., Ltd., in the People's Republic of China (PRC); printing inks technical centers, polymer technical centers, solid compound technical centers and pigment technical centers in the PRC and the Asia-Pacific region; the Fine Chemical Technical Center-Korea; and an algae research center in the United States. The Company also actively promotes open innovation, including through collaboration with other companies, academic institutions, and government bodies, in the areas of next-generation technology development and basic research.

In the fiscal year 2021, the Company established the Data Science Center. This new facility will strengthen training for human resources in the area of AI and materials informatics (MI), and accelerate efforts to improve the efficiency of R&D.

Research and development expenses for the fiscal year ended December 31, 2021, were ¥13,053 million. In addition, technology-related expenses for the Company and DIC Graphics for product improvement and customization were ¥14,524 million. Recent R&D highlights in the period under review are described below.

### (1) Packaging & Graphic

In the area of printing inks, the DIC Group developed and commenced sales of biomass gravure inks for surface printing on films used for food packaging, including bread bags, with high resistance to oils, such as butter, and to alcohol disinfectants, and a biomass antibacterial varnish with outstanding alcohol-, heat- and oil-resistant properties. Among existing biomass-based products, FINART® BM, a gravure ink for reverse printing, became the first gravure ink sold in Japan to obtain certification under OK compost INDUSTRIAL and OK compost HOME, key global endorsements of the biodegradability of plastics. In addition, an offset ink, ultraviolet (UV) curable overprint varnish (OPV) earned certification under the Japan Organics Recycling Association (JORA)'s Biomass Mark labeling system. The Group also developed a series of biomass adhesives that deliver the same performance as conventional petroleum-based products and is steadily expanding its track record in flexible packaging market. On another front, the Company began working with a major bread producer in Japan to recycle waste flexible packaging film.

Overseas, the Sun Chemical Group developed a variety of products that enhance the sustainability of packaging. These include polyvinyl chloride (PVC)-free inks for lamination, coatings that help realize compostable paper and film, water-based inks, and coatings with high levels of biomass-derived raw materials, and deinkable inks, that is, inks that can be easily removed during recycling.

### (2) Color & Display

In addition to new pigments for color filters used in displays, in the area of color materials the DIC Group focused on responding to an increasing awareness of sustainability and a growing preference for natural products in the cosmetics field. This included exploring the use of Linablue and other natural colorants in cosmetics and developing UV-protective cosmetics containing Sacran, a polysaccharide extracted from freshwater blue-green algae called Suizenji Nori, through a capital and business alliance with a green biotech start-up. In liquid crystal (LC) materials, the Group worked to advance applications for LC technologies by developing smart windows and LC antennas, among others.

Overseas, the Sun Chemical Group's development efforts continued to yield solid results against a backdrop of rising environmental awareness. These include pigments that exhibit excellent near-infrared reflectivity, thereby helping reduce cooling costs, and transparent pigments that increase the efficiency of plastics recycling. Also, the Group launched its new products such as color travel effect pigments for cosmetics and metallic pigments for specialty applications.

### (3) Functional Products

Achievements in the area of synthetic resins included low-dielectric materials for electronic circuit boards in preparation for the full-scale deployment of the 5G cellular telecommunications standard, a series of reactive hot melt adhesives for use with building materials for interior finishings that deliver ultrahigh moisture resistance and high biomass-content additives that improve the flow of biodegradable resin compounds containing a large amount of inorganic filler.

In polyphenylene sulfide (PPS) compounds, the DIC Group launched a number of new products, notably a PPS alloy for automobile parts that will contribute to the increased electrification of automobiles and a non-alumina insulating and heat-dissipating compound for automotive sensors.

In industrial adhesive tapes, the Group developed a new thin adhesive tape for smartphones that delivers outstanding strength and easy dismantling and a product for personal computers that boasts excellent reworkability. The Group also developed a hybrid inorganic antiviral and antibacterial agent compounding a visible light-responsive photocatalyst and metal compound that boasts superior antiviral and antibacterial effectiveness and unique features such as a self-cleaning function.

### (4) Other

In an initiative aimed at creating new basic technologies, in the area of inorganic materials the DIC Group added to its lineup of plates alumina fillers for which the flake size and shape are controlled using a proprietary inorganic oxide synthesis technology, marketing new products for applications that benefit from heat-dissipating properties, as well as from reinforcement and resistance to heat and wear.

In the area of sustainable products, development centered on a new naturally derived aspartic acid and a biodegradable waterborne superabsorbent polymer (SAP) made with this new material, as well as on creating a low-cost production process for an SAP that is made from renewable resources and biodegradable, thereby contributing to both decarbonization and the reduction of plastic waste.

In collaboration with TAIYO INK MFG. CO., LTD., with which it has a capital and business alliance, the Group pressed ahead with the development of a new seed film for fabricating wiring on printed wiring boards for use in the high-frequency bands supported by the next-generation 5G cellular telecommunications standard. The Group also fortified its lineup of products for electronics, a focus of its efforts to create new businesses, trademarking and commencing sales of its new Hatte Totte® soft wireless sensor, which can be used to detect temperature, humidity and illuminance and features that include a proprietary removable tape for easy mounting and repositioning.

### III. Facilities

#### 1. Overview of Capital Expenditures

In addition to placing a high priority on product development and research themes that promise long-term growth, the DIC Group invests in labor efficiency, rationalization, conservation and environmental safety.

Principal investments to build new or expand existing facilities, by segment, were as follows:

Segment	Capital investment amount (Millions of yen)	Main content and purpose of facilities	financing method
Packaging & Graphic	10,703	Update of packaging materials production facilities Investments to update and optimize production facilities for packaging inks and polystyrene for packaging applications aimed at improving production efficiency to accommodate the expansion of the packaging materials market.	Own funds and borrowings
Color & Display	8,156	Enhancement of pigments production facilities Investments to enhance production facilities for pigments for coatings and functional pigments, among others, to bolster production efficiency in response to business expansion.	Own funds and borrowings
Functional Products	18,388	Expansion of production facilities for synthetic resins Investments to expand production facilities for waterborne and solvent-free synthetic resins, for which demand is expanding as a result of expanded awareness of environment-friendly products.	Own funds and borrowings
Other and Corporate	1,394	Update of information systems Investments to shift to a new information system capable of supporting digital transformation (DX).	Own funds and borrowings
Subtotal	38,641	—	—

(Note) Capital expenditures common to multiple segments are allocated to each segment.

## 2. Major Facilities

The major facilities of DIC Group at the end of the current consolidated fiscal year are as follows:

### (1) The Company

Site name (location)	Segment	Details of the facilities	Book value (Millions of yen)					Number of employees	
			Buildings	Machinery and equipment	Furniture and fixtures	Land (Thousand m <sup>2</sup> )	Construction in progress		Total
Chiba Plant (Ichihara City, Chiba Prefecture)	Functional Products	Synthetic resin production facilities, etc.	7,574	6,176	824	2,005 (435)	247	16,825	674
Sakai Plant (Takaishi City, Osaka Prefecture)	Functional Products	Synthetic resin production facilities, etc.	2,980	2,406	616	1,584 (199)	1,088	8,674	348
Kashima Plant (Kamisu City, Ibaraki Prefecture)	Color & Display Functional Products	Organic pigment production facility, PPS polymer production facility, etc.	6,373	8,838	387	2,570 (603)	1,341	19,509	289
Saitama Plant (Kitaadachi- gun, Saitama Prefecture)	Packaging & Graphics Color & Display Functional Products	Industrial tape production facilities, etc.	3,133	1,149	589	2,293 (111)	26	7,190	385
Research and Development Institute (Sakura City, Chiba Prefecture)	Company- wide	Research facilities, etc.	4,404	122	1,331	2,769 (256)	12	8,638	295
Hokuriku Plant (Hakusan City, Ishikawa Prefecture)	Functional products	Synthetic resin production facilities, etc.	2,809	2,954	91	1,443 (144)	24	7,321	217
Head Office (Chuo-Ku, Tokyo)	Packaging & Graphics Color & Display Functional products Company- wide	Other equipment	1,853	1	779	1,724 (113)	66	4,422	865

(Note) The head office includes land for the construction of factories, welfare facilities, and logistics facilities belonging to the head office.

## (2) Status of domestic subsidiaries

Company name (principal location)	Segment	Details of the facilities	Book value (Millions of yen)					Number of employees	
			Buildings	Machinery and equipment	Furniture and fixtures	Land (Thousand m <sup>2</sup> )	Construction in progress		Total
DIC Graphics Co., Ltd. Tokyo Plant, etc. (Itabashi-Ku, Tokyo, etc.)	Packaging & Graphics	Printing ink production facilities, etc.	1,616	3,245	161	1,037 (51)	1	6,061	667
Seiko PMC Co., Ltd. Mizushima Plant and others (Kurashiki City, Okayama Prefecture, and others)	Functional Products	Production facilities for papermaking chemicals, etc.	2,192	2,174	167	5,723 (146)	179	10,435	489
DIC Kitanihon Polymer Co., Ltd. Tohoku Plant and others (Katta-gun, Miyagi Prefecture)	Functional Products	Synthetic resin production facilities, etc.	1,313	1,076	64	694 (72)	26	3,174	94

(Note) The above book value is the book value on the consolidated balance sheet after adjusting the book value of each company.

## (3) Status of overseas subsidiaries

Company name (headquarter location)	Segment	Details of the facilities	Book value (Millions of yen)						Number of employees
			Buildings	Machinery and equipment	Furniture and fixtures	Land (Thousand m <sup>2</sup> )	Construction in progress	Total	
PT. DIC GRAPHICS (Jakarta, Indonesia)	Packaging & Graphics Color & Display	Printing ink production facilities, etc.	1,799	1,312	145	548 (131)	32	3,836	774
DIC Zhangjiagang Chemicals Co., Ltd. (Zhangjiagang, China)	Functional Products	Synthetic resin production facilities, etc.	1,333	2,434	383	— (—)	7	4,157	202
Sun Chemical Group Cooperative U. A. (Weesp, Netherlands)	Packaging & Graphics Color & Display Functional Products Other	Printing ink production facilities, Pigment production facilities, etc.	43,305	62,145	5,951	17,838 (10,444)	7,930	137,168	10,606

(Note) Sun Chemical Group Cooperative U. A. figures shown represent the value upon the consolidation of its subsidiaries.

## 3. Plans for New Installation and Retirement of Facilities

DIC Group conducts a wide variety of businesses both in Japan and overseas, and plans for new construction, expansion, and rationalization of facilities are diverse. The capital investment plan for the following consolidated fiscal year was ¥53 billion, and the breakdown by segment is as follows:

Segment	Planned amount as of December 31, 2021 (Millions of yen)	Main content and purpose of facilities	Financing method
Packaging & Graphics	17,000	Expansion of packing ink production facilities overseas, etc.	Own funds and borrowings
Color & Display	10,400	Expansion of production facilities for functional pigments overseas, etc.	Own funds and borrowings
Functional Products	20,200	New construction of production facilities for synthetic resins in Japan, etc.	Own funds and borrowings
Other and Corporate	5,400	Update of information systems, etc.	Own funds and borrowings
Subtotal	53,000	—	—

(Note) 1. Capital investment plans common to all segments are included in Other and Corporate.

2. There is no plan for retirement or sale of important facilities, except for the regular retirement or sale related to updating facilities.

IV. Information on the Company

1. Information on the Company's Shares

(1) Total Number of Shares, etc.

① [Number of shares authorized]

Type	Total number of shares authorized for issue
Common stock	150,000,000
Total	150,000,000

② [Number of shares issued]

Type	Number of shares issued (as of December 31, 2021)	Number of shares issued (as of March 29, 2022)	Financial instruments exchanges on which the Company is listed or authorized financial instruments firms	Description
Common stock	95,156,904	95,156,904	Tokyo Stock Exchange (First Section)	Unit number: 100 shares
Total	95,156,904	95,156,904	—	—

(2) Stock Acquisition Rights

① [Stock option system]

Not applicable.

② [Rights plan]

Not applicable.

③ [Other stock acquisition rights, etc.]

Not applicable.

(3) Exercise of Bonds with Moving Strike Warrants, etc.

Not applicable.

## (4) Changes in Number of Shares Issued, Capital Stock, etc.

Date	Change in number of shares issued	Balance of number of shares issued	Change in capital stock (Millions of yen)	Balance of capital stock (Millions of yen)	Change in legal capital surplus (Millions of yen)	Balance of legal capital surplus (Millions of yen)
July 1, 2016	(856,412,144)	95,156,904	—	96,557	—	94,156

(Note) Following the approval of a proposal at the 118th Annual General Meeting of Shareholders, held on March 29, 2016, the Company implemented a consolidation of shares of common stock by a factor of 10 to 1 with July 1, 2016, as of the effective date

## (5) Shareholder Composition

As of December 31, 2021

	Status of shares (1 unit = 100 shares)								Number of shares less than one unit
	Japanese national and local governments	Japanese financial institutions	Japanese financial instruments firms	Other Japanese corporations	Foreign shareholders		Japanese individual investors and others	Total	
					Other than individual investors	Individual investors			
Number of shareholders	—	87	39	431	323	27	38,954	39,861	—
Number of shares owned (Units)	—	386,197	49,541	156,632	226,803	63	130,582	949,818	175,104
Percentage of shares owned (%)	—	40.66	5.22	16.49	23.88	0.01	13.75	100.00	—

(Note) 1. The Company's 370,550 shares of treasury stock are included in "Japanese individual investors and others" (3,705 units) and "Number of shares less than one unit" (50 shares). The total number of shares of treasury stock—370,550—is the number of shares listed in the shareholder registry. As of December 31, 2021, the actual number of shares of treasury stock owned was 370,250.

2. The 131,700 shares held by the Board Benefit Trust (BBT) are included in "Japanese financial institutions" (1,317 units).

3. The 300 shares registered in the name of Japan Securities Depository Center, Inc. (JASDEC) are included in "Other Japanese corporations" (three units).

## (6) Major Shareholders

As of December 31, 2021

Name of shareholder	Address	Number of shares owned	Percentage of total issued shares (excluding treasury stock) (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo, Japan	14,012,100	14.78
SHOEI INC.	16-2, Soto-Kanda 2-chome, Chiyoda-ku, Tokyo, Japan	12,694,386	13.39
Custody Bank of Japan, Ltd. (Trust Account)	8-12, Harumi 1-chome, Chuo-ku, Tokyo, Japan	5,113,100	5.39
The Dai-ichi Life Insurance Company, Limited (Standing proxy: Custody Bank of Japan, Ltd.)	13-1, Yurakucho 1-chome, Chuo-ku, Tokyo, Japan (8-12, Harumi 1-chome, Chuo-ku, Tokyo, Japan)	3,500,009	3.69
SMBC Nikko Securities Inc.	3-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo, Japan	2,690,200	2.84
Custody Bank of Japan, Ltd. (Trust Account 4)	8-12, Harumi 1-chome, Chuo-ku, Tokyo, Japan	2,438,800	2.57
JP MORGAN CHASE BANK 385632 (Standing proxy: Mizuho Bank, Ltd.)	25 Bank Street, Canary Wharf, London E14 5JP, United Kingdom (Shinagawa Intercity A, 15-1, Konan 2-chome, Minato-ku, Tokyo)	2,068,405	2.18
Aioi Nissay Dowa Insurance Co., Ltd. (Standing proxy: The Master Trust Bank of Japan, Ltd.)	28-1, Ebisu 1-chome, Shibuya-ku, Tokyo, Japan (11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo, Japan)	2,020,859	2.13
JP MORGAN CHASE BANK 380072 (Standing proxy: Mizuho Bank, Ltd.)	25 Bank Street, Canary Wharf, London E14 5JP, United Kingdom (Shinagawa Intercity A, 15-1, Konan 2-chome, Minato-ku, Tokyo)	1,911,600	2.02
NIPPON LIFE INSURANCE COMPANY (Standing proxy: The Master Trust Bank of Japan, Ltd.)	6-6, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan (11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo, Japan)	1,900,075	2.00
Total	—	48,349,534	51.01

(Note) 1. "Number of shares owned" includes the following shares held in association with fiduciary activities:

The Master Trust Bank of Japan, Ltd. (Trust Account):	Securities investment trust: 5,955,300	Pension trust: 473,500
Custody Bank of Japan, Ltd. (Trust Account):	Securities investment trust: 1,963,500	Pension trust: 178,100
Custody Bank of Japan, Ltd. (Trust Account 4):	Pension trust: 451,800	

2. In a report of large volume possession provided by Mizuho Bank, Ltd., for public inspection on July 7, 2021, the following shares are attributed to Mizuho Bank, Ltd. and two joint holders as of June 30, 2021. However, since the Company cannot confirm the actual number of shares held by these companies as of December 31, 2021, they are not included in major shareholders above.

Name of shareholder	Address	Number of shares owned	Percentage of total issued shares (excluding treasury stock) (%)
Mizuho Bank, Ltd.	5-5, Otemachi 1-chome, Chiyoda-ku, Tokyo, Japan	829,369	0.87
Mizuho Trust & Banking Co., Ltd.	2-1, Yaesu 1-chome, Chuo-ku, Tokyo, Japan	638,200	0.67
Asset Management One Co., Ltd.	8-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan	3,657,600	3.84
Total		5,125,169	5.39

3. In a report of large volume possession (report of changes) provided by Sumitomo Mitsui Trust Asset Management Co., Ltd., for public inspection on December 21, 2021, the following shares are attributed to Sumitomo Mitsui Trust Asset Management Co., Ltd. and one joint holder, Nikko Asset Management Co., Ltd., as of December 15, 2021. However, since the Company cannot confirm the actual number of shares held by these companies as of December 31, 2021, they are not included in major shareholders above.

Name of shareholder	Address	Number of shares owned	Percentage of total issued shares (excluding treasury stock) (%)
Sumitomo Mitsui Trust Asset Management Co., Ltd.	1-1, Shibakoen 1-chome, Minato-ku, Tokyo, Japan	4,810,300	5.06
Nikko Asset Management Co., Ltd.	7-1, Akasaka 9-chome, Minato-ku, Tokyo, Japan	1,795,500	1.89
Total		6,605,800	6.94

## (7) Voting Rights

## ① [Issued shares]

As of December 31, 2021

Category	Number of shares		Number of voting rights (Units)	Description
Shares without voting rights	—		—	—
Shares with restricted voting rights (treasury stock, etc.)	—		—	—
Shares with restricted voting rights (other)	—		—	—
Shares with full voting rights (treasury stock, etc.)	Common stock	370,200	—	Shares less than one unit (100 shares)
Shares with full voting rights (other)	Common stock	94,611,600	946,116	Shares less than one unit (100 shares)
Shares less than one unit	Common stock	175,104	—	—
Number of issued shares	95,156,904		—	—
Voting rights of all shareholders	—		946,116	—

(Note) Shares of common stock in “Shares with full voting rights (other)” include 300 shares (constituting three units of voting rights) registered in the name of JASDEC and 131,700 shares held by the BBT (constituting 1,317 voting rights). The 1,317 voting rights for the shares held by the BBT are not exercised.

## ② [Treasury stock, etc.]

As of December 31, 2021

Name of shareholder	Address	Number of shares held under own name	Number of shares held under another name	Number of shares owned	Percentage of total issues shares (%)
(Shares of treasury stock) DIC Corporation	35-58, Sakashita 3-chome, Itabashi-ku, Tokyo, Japan	370,200	—	370,200	0.39
Total		370,200		370,200	0.39

(Note) 1. In addition to the shares indicated above, there are 300 shares of treasury stock listed in the shareholder registry under the name of the Company that it does not actually own. These shares are included in “Shares with full voting rights (other)” in the table “(a) Issued shares” above.

2. The 131,700 shares of treasury stock held by the BBT are not included in shares of treasury stock above.

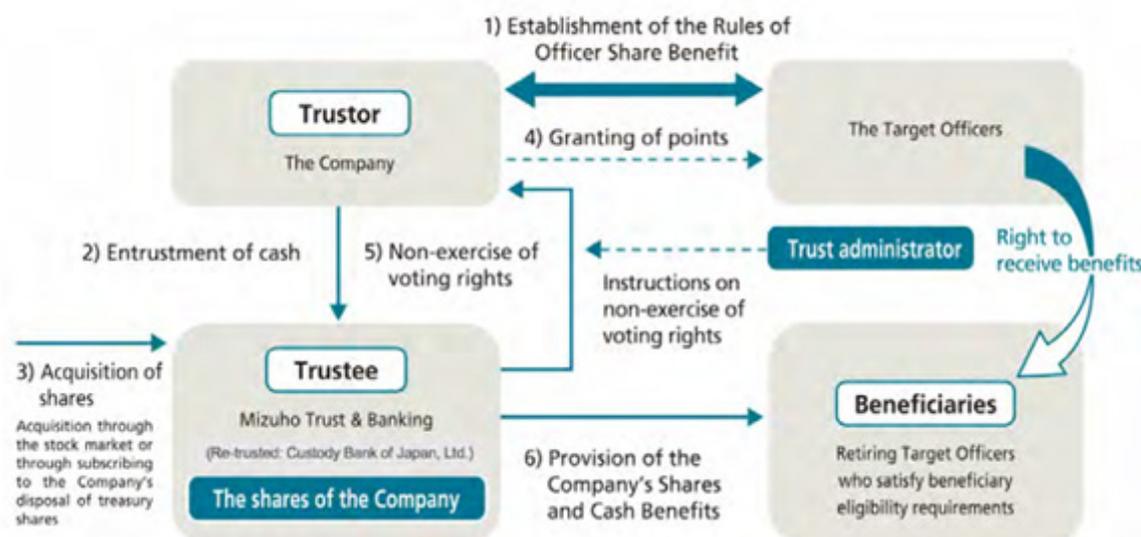
## (8) Share Ownership by Directors/Other Officers and Employees

Following the approval of proposals at the 119th Annual General Meeting of Shareholders, held on March 29, 2017, and the 123rd Annual General Meeting of Shareholders, held on March 30, 2021, the Company introduced the Board Benefit Trust (BBT), a performance-based stock compensation plan for target officers, i.e., directors who serve concurrently as executive officers and executive officers.

## 1. Structure of the Plan

The BBT is a type of stock compensation plan. The trust acquires shares of the Company using cash entrusted to it by the Company. The trust provides target officers with shares or a cash equivalent as stipulated in the Rules of Officer Share Benefit. The purpose of the plan is to strengthen the target officers’ awareness of the importance of contributing to the medium- to long-term improvement of operating results, as well as to the enhancement of corporate value, and of sharing the same objectives as shareholders, by clarifying the link between remuneration for eligible individuals and the value of the Company’s shares.

## Structure of the Plan



- ① The Company established the Rules of Officer Share Benefit within the scope of the structure approved at the 119th Annual General Meeting of Shareholders and the 123rd Annual General Meeting of Shareholders.
  - ② The Company entrusts cash within the scope of the approved proposals described in ①.
  - ③ The trust acquires shares of the Company through the stock market or by subscribing to the Company's disposal of treasury shares using the cash entrusted as described in ②.
  - ④ The Company grants points to the target officers in accordance with the Rules of Officer Share Benefit.
  - ⑤ The BBT does not exercise the voting rights of the shares of the Company in the trust account in accordance with the instructions from the trust administrator independent of the Company.
  - ⑥ The BBT provides those individuals who retire from office as a target officer and fulfill the beneficiary eligibility requirements stipulated in the Rules of Officer Share Benefit with shares of the Company commensurate with the number of points accumulated as of retirement. If, however, a target officer fulfills separate requirements stipulated in the Rules of Officer Share Benefit, the Company provides a cash equivalent of the amount that would be obtained if the shares of the Company were converted at market price for a certain proportion of the number of points accumulated as of retirement.
2. Total number of shares expected to be acquired by eligible parties (as of the end of the fiscal year ended December 31, 2021)  
131,700
  3. Scope of individuals eligible as beneficiaries of the plan  
Individuals who retire from office as a target officer and fulfill the beneficiary eligibility requirements stipulated in the Rules of Officer Share Benefit.

2. Acquisition, etc., of Treasury Stock

[Class of shares] Class of shares: Acquisition of common stock under Article 155, Item 7, of the Companies Act of Japan

(1) Acquisition of treasury stock based on resolution at the annual general meeting of shareholders

Not applicable.

(2) Acquisition of treasury stock based on resolution of the Board of Directors

Not applicable.

(3) Acquisition of treasury stock not based on resolution at the annual general meeting of shareholders or of the Board of Directors

Category	Number of shares	Total value (Yen)
Treasury stock acquired during the fiscal year ended December 31, 2021	2,928	8,613,455
Treasury stock acquired during the current period for acquisition	319	929,236

(Note) Treasury stock acquired during the current period for acquisition does not include shares constituting less than one unit purchased between March 1, 2022, and the filing date of this report.

(4) Disposal and holding of acquired shares of treasury stock

Category	Fiscal year ended December 31, 2021		Current period for acquisition	
	Number of shares	Total value of shares disposed of (Yen)	Number of shares	Total value of shares disposed of (Yen)
Acquired treasury stock for which subscribers were solicited	—	—	—	—
Acquired treasury stock that was disposed of	—	—	—	—
Acquired treasury stock for which transfer of shares was conducted in association with a merger, share exchange, share delivery or corporate separation	—	—	—	—
Other	—	—	—	—
Shares of treasury stock held	370,250	—	370,569	—

(Note) Treasury stock held during the current period for acquisition does not include shares constituting less than one unit purchased between March 1, 2022, and the filing date of this report.

### 3. Dividend Policy

The Company's basic policy is to establish a stable management foundation, while further enhancing returns to shareholders. The Company will also endeavor to bolster retained earnings as well as to ensure their effective use, with the aim of further reinforcing its corporate structure and enhancing future benefits to shareholders.

The Company's policy is to make an appropriation of retained earnings to pay dividends twice annually, an interim and a fiscal year-end dividend. The year-end dividend is determined by resolution at the annual general meeting of shareholders, while the interim dividend is approved by resolution of the Board of Directors, with the Company's Articles of Incorporation providing that an appropriation of surplus may be made for the payment of an interim dividend to shareholders of record as of June 30 of each year.

In line with the above policy, the following appropriations of surplus were made for the payment of cash dividends applicable to the fiscal year ended December 31, 2021:

Date of resolution	Total amount of dividends (Millions of yen)	Dividend per share (Yen)
Resolution of the Board of Directors (August 10, 2021)	4,739	50
Resolution at the annual general meeting of shareholders (March 29, 2022)	4,739	50

(Note) 1. The total amount of dividends approved by resolution of the Board of Directors on August 10, 2021, includes dividends of ¥7.0 million for the Company's shares held by the Board Benefit Trust (BBT).

2. The total amount of dividends approved by resolution at the annual general meeting of shareholders held on March 29, 2022, includes dividends of ¥7.0 million for the Company's shares held by the BBT.

#### 4. Corporate Governance

##### (1) Overview of corporate governance

###### 1. Basic approach to corporate governance

The DIC Group defines corporate governance as a mechanism to ensure effective decision-making pertaining to its management policy of achieving sustainable corporate growth and expansion through sound and efficient management, while at the same time guaranteeing the appropriate monitoring and assessment of, and motivation for, management's execution of business activities. With the aim of achieving a higher level of trust with our shareholders, customers and other stakeholders and enhancing corporate value, the DIC Group also promotes ongoing measures to reinforce its management system and ensure effective monitoring thereof.

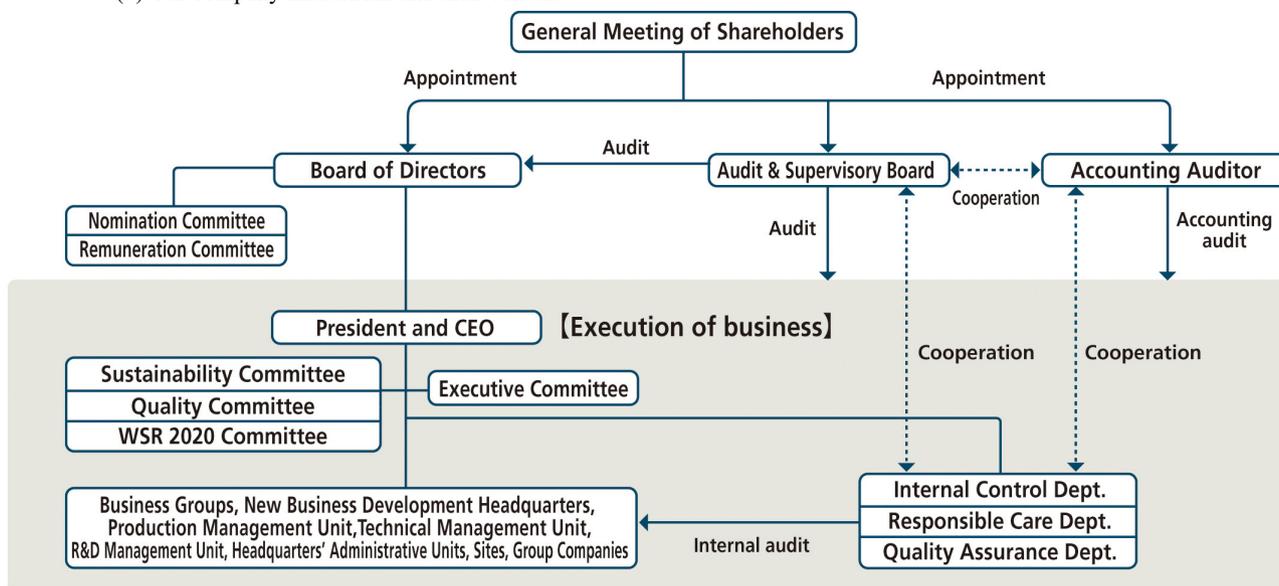
###### 2. Corporate governance organization

(1) As a company with Audit & Supervisory Board Members, the Company has a Board of Directors and an Audit & Supervisory Board. The Company has also instituted an executive officer system and has established a Nomination Committee, Remuneration Committee, Executive Committee, Sustainability Committee, Quality Committee and Work Style Revolution (WSR) 2020 Committee.

###### (2) Rationale behind current corporate governance system

The Company has instituted an executive officer system, a move aimed at separating decision-making and implementation, and thereby accelerating business execution and clarifying responsibilities. The Company has appointed three highly independent outside individuals to its Board of Directors to reinforce its monitoring of business execution. The Company also has a Nomination Committee and a Remuneration Committee, which include three outside directors, to ensure objectivity in the nomination of, and in determining remuneration for, Directors and Executive Officers. Four Audit & Supervisory Board Members, which includes one attorney and one certified public accountant as outside members, conduct audits in liaison with the accounting auditors and the internal auditing department. This structure ensures the effective functioning of the Company's corporate governance system.

###### (3) Our company institutions and their content



① Board of Directors

From the perspective of making business decisions in a timely manner and reinforcing corporate governance, the Board of Directors consists of nine Directors, three of whom are Outside Directors (one of whom is female). The Board of Directors typically meets once a month to make decisions on matters delegated to it under the Companies Act and on important business matters stated in the regulations for meetings of the Board of Directors, as well as to receive status reports on the execution of business operations and supervise the execution of the business.

As of the date of publication, Board Members were: Chairman of the Board of Directors, Masayuki Saito; Representative Director, President and CEO, Kaoru Ino; Representative Director and Executive Vice President, Toshifumi Tamaki; Director, Yoshihisa Kawamura; Director and Managing Executive Officer, Takeshi Asai; Director and Managing Executive Officer, Shuji Furuta; Outside Director, Kazuo Tsukahara; Outside Director, Yoshiaki Tamura; and Outside Director, Kuniko Shoji.

② Nomination Committee

To ensure objectivity in the nomination of Directors, Audit & Supervisory Board Members and Executive Officers, among others, the Nomination Committee was established to provide recommendations to the Board of Directors regarding the appointment and dismissal of Directors, Audit & Supervisory Board Members and Executive Officers. The Nomination Committee meets as necessary and consists of five Directors, three of whom are Independent Outside Directors, with an Independent Outside Director serving as Chairman.

As of the date of publication, the Committee members were: Outside Director, Yoshiaki Tamura (Committee Chairman); Chairman of the Board of Directors, Masayuki Saito; Representative Director, President and CEO, Kaoru Ino; Outside Director, Kazuo Tsukahara; and Outside Director, Kuniko Shoji.

③ Remuneration Committee

To ensure objectivity in the determination of remuneration for Directors and Executive Officers, the Remuneration Committee was established and has been entrusted with responsibility for determining remuneration, among others, for Directors and Executive Officers. The Remuneration Committee meets as necessary and consists of five Directors, three of whom are Independent Outside Directors, with an Independent Outside Director serving as Chairman.

As of the date of publication, the Committee members were: Outside Director, Kazuo Tsukahara (Committee Chairman); Chairman of the Board of Directors, Masayuki Saito; Representative Director, President and CEO, Kaoru Ino; Outside Director, Yoshiaki Tamura; and Outside Director, Kuniko Shoji.

④ Executive Committee

The Executive Committee was established as a body to advise on important matters related to the execution of business. The Executive Committee meets twice monthly in principle and consists of Executive Officers and others designated by the Board of Directors from among the President and CEO, the Executive Vice President, the Heads of the Units, and the General Managers of the Management Units and Product Divisions. As part of the auditing process, one Audit & Supervisory Board Member also attends Executive Committee meetings. Details of deliberations at meetings and the results thereof are reported to the Board of Directors.

As of the date of publication, the Committee members were: President and CEO, Kaoru Ino (Committee Chairman); Executive Vice President, Toshifumi Tamaki; Managing Executive Officers, Naoyoshi Furuta, Masaya Nakafuji, Kiyotaka Kawashima, Masamichi Sota, Kiyofumi Takano, Yoshinari Akiyama, Takeshi Asai, Shuji Furuta and Takashi Ikeda; and Executive Officers, Taihei Mukose, Koji Asada, Yuji Morinaga, Toshiro Ariga, Yuji Kikuchi and Kuniko Torayama.

#### ⑤ Sustainability Committee

The Sustainability Committee, which functions as an advisory body, meets several times annually to formulate sustainability policies and activity plans, as well as to evaluate and promote sustainability initiatives. The Sustainability Committee consists of Executive Officers and others designated by the Board of Directors from among the President and CEO, the Executive Vice President, the Heads of Units, the General Managers of the Management Units and Product Divisions, and the Managing Directors of regional headquarters. As part of the auditing process, one Audit & Supervisory Board member also attends Sustainability Committee meetings. Details of deliberations at meetings and the results thereof are reported to the Board of Directors.

As of the date of publication, the Committee members were: President and CEO, Kaoru Ino (Committee Chairman); Executive Officer, Kuniko Torayama (Committee Vice Chairman); Executive Vice President, Toshifumi Tamaki; Managing Executive Officers, Naoyoshi Furuta, Masaya Nakafuji, Kazuo Hatakenaka, Kiyotaka Kawashima, Masamichi Sota, Kiyofumi Takano, Yoshinari Akiyama, Myron Petrush, Takeshi Asai, Shuji Furuta and Takashi Ikeda; Executive Officers, Taihei Mukose, Paul Koek, Koji Asada, Yuji Morinaga, Toshiro Ariga, Yuji Kikuchi and Tomoyuki Tanaka; General Manager of the Display Materials Product Division, Hirokazu Kigane; and Representative Director, President and CEO of DIC Graphics Corporation, Toshiyuki Kai.

#### ⑥ Quality Committee

In addition to reporting on the status and progress of quality management, the Quality Committee functions as a deliberative body for the DIC Group's quality policies, principal initiatives, and important issues. In principle, the Quality Committee meets once quarterly and consists of Executive Officers and others designated by the Board of Directors from among the President and CEO, the Executive Vice President, the Heads of the Units, and the General Managers of the Management Units and Product Divisions. As part of the auditing process, one Audit & Supervisory Board member also attends Quality Committee meetings. Details of deliberations at meetings and the results thereof are reported to the Board of Directors.

As of the date of publication, the Committee members were: President and CEO, Kaoru Ino (Committee Chairman); Deputy General Manager of the Production Management Unit (in charge of quality control), Kazufumi Oikawa (Committee Vice Chairman); Executive Vice President, Toshifumi Tamaki; Managing Executive Officers, Naoyoshi Furuta, Masaya Nakafuji, Kiyotaka Kawashima, Masamichi Sota, Yoshinari Akiyama, Takeshi Asai, Shuji Furuta and Takashi Ikeda; Executive Officers, Yuji Morinaga and Yuji Kikuchi; and General Manager of the Display Materials Product Division, Hirokazu Kigane.

#### ⑦ WSR 2020 Committee

The WSR 2020 Committee was established to deliberate work style reform-related measures and investment plans, among others, with the aim of enhancing Group employee job satisfaction and productivity. In principle, the WSR 2020 Committee meets once quarterly. The WSR 2020 Committee consists of Executive Officers and others designated by the Board of Directors from among the President and CEO, the Executive Vice President, the Heads of the Units, and the General Managers of the Management Units and Product Divisions. Details of deliberations at meetings and the results thereof are reported to the Board of Directors.

As of the date of publication, the Committee members were: President and CEO, Kaoru Ino (Committee Chairman); Executive Vice President, Toshifumi Tamaki (Committee Vice Chairman); Managing Executive Officers, Naoyoshi Furuta, Masaya Nakafuji, Kiyotaka Kawashima, Masamichi Sota, Kiyofumi Takano, Yoshinari Akiyama, Takeshi Asai, Shuji Furuta and Takashi Ikeda; and Executive Officers, Taihei Mukose, Koji Asada, Yuji Morinaga, Toshiro Ariga, Yuji Kikuchi and Kuniko Torayama.

### ⑧ Audit & Supervisory Board

The Audit & Supervisory Board comprises four members, including two Outside Members (one of whom is female). In principle, the Audit & Supervisory Board meets once monthly. Board activities include debating and determining auditing policies and auditing plans. Members also report on the results of audits conducted.

As of the date of publication, Board Members were: Full-Time Audit & Supervisory Board Members, Akihiro Ikushima (Board chairman) and Hiroyuki Ninomiya; Outside Audit & Supervisory Board Members, Michiko Chiba and Keita Nagura.

### 3. Internal control and risk management systems

In striving to conduct its operations in accordance with The DIC Way, the Company has prepared and operates a system of internal controls based on the Companies Act of Japan. The key components of this system are as follows:

- ① The Company shall work to set forth the DIC Group Code of Business Conduct as the standard regarding compliance, which Directors and employees of the DIC Group shall comply with and disseminate it.
- ② The Company shall establish an internal notification system as a channel available for the employees of the DIC Group and set up multiple notification channels for communication used in the conduct of business. The Company shall prepare a structure that can quickly respond to domestic and internal notifications.
- ③ In order to ensure the duties of Directors are performed properly and efficiently within the DIC Group, the Company shall establish regulations regarding company organization and authority.
- ④ The Company shall formulate management plans and the annual budget, based on management policies and management strategies of the DIC Group, and, through dissemination of the same, ensure common goals are shared within the DIC Group. The Company shall make progress reports to the Board of Directors.
- ⑤ Information pertaining to the performance of duties by Directors shall be recorded, retained and managed appropriately based on the regulations for document management. The Company shall establish regulations for systems of information management and shall prepare a system for preventing leakage of confidential information of the DIC Group.
- ⑥ The Company shall formulate a risk management policy and shall identify, assess, prioritize and address properly any risks that may have a significant impact on management of the DIC Group.
- ⑦ The Company shall determine an administrative department for each subsidiary from the standpoints of the conduct of business and business management, and shall supervise business affairs by dispatching a director to each subsidiary.
- ⑧ The Company shall clarify important matters, including those pertaining to subsidiaries, that must be approved by or reported to the Company.

### 4. Outline of liability limitation contracts

The Company concludes liability limitation contracts with all Outside Directors and Outside Audit & Supervisory Board Members. Under such a contract, if Outside Directors or Outside Audit & Supervisory Board Members neglect their duties, causing damage to the Company, they are liable for damages up to the minimum liability amount stipulated in Article 425, paragraph 1 of the Companies Act of Japan, providing that they have acted in good faith and were not grossly negligent.

### 5. Outline of D&O liability insurance

The Company purchases directors' and officers' (D&O) liability insurance from an insurance company, as stipulated in Article 430-3, paragraph 1 of the Companies Act of Japan, for all Directors, Audit & Supervisory Board Members, Executive Officers and other individuals designated as important employees under the Act (including those who have already retired) of the Company and of its subsidiaries, payable to the insured individuals. The insurance premiums of the insured persons are paid in full by the Company. This insurance covers damages, including legal expenses, incurred by insured individuals in the event of a claim for damages arising from an act or acts committed in the course of performing their duties. This contract is renewed annually.

### 6. Number of Directors

The Company's Articles of Incorporation stipulate that the Company must not have more than 14 Directors.

7. Required conditions for resolution to elect a Director

The Company's Articles of Incorporation stipulate that a resolution for the election of a Director requires the presence of shareholders representing not less than one-third of the voting rights of all shareholders entitled to exercise voting rights and is adopted by a majority vote thereof. The Articles also stipulate that cumulative voting may not be used in the election of Directors.

8. Determination of interim dividends

To allow the expeditious distribution of profits to shareholders, the Company's Articles of Incorporation stipulate that the Company may, by resolution of the Board of Directors, pay an interim dividend each year.

9. Determination of the acquisition of treasury stock

Pursuant to the provision of Article 165, paragraph 2 of the Companies Act of Japan, the Company's Articles of Incorporation stipulate that the Company may, by resolution of the Board of Directors, acquire treasury stock. This is to ensure the Company's ability to respond flexibly to changes in the operating environment.

10. Stipulations in the Articles of Incorporation exempting Directors and Audit & Supervisory Board Members from liability pursuant to the provision of Article 426, paragraph 1 of the Companies Act of Japan, the Company's Articles of Incorporation stipulate that the Company may, by resolution of the Board of Directors, exempt Directors or Audit & Supervisory Board Members (including those who have already retired) who have neglected their duties from liability for damages to the extent allowable by laws and regulations. This is to ensure that Directors and Audit & Supervisory Board Members are able to adequately perform their expected duties.

11. Required conditions for special resolution of the Board of Directors

Pursuant to the provision of Article 309, paragraph 2 of the Companies Act of Japan, the Company's Articles of Incorporation stipulate that a special resolution of the Board of Directors requires the presence of shareholders representing not less than one-third of the voting rights of all shareholders entitled to exercise voting rights and adoption by at least a two-thirds vote thereof. This is to ensure the smooth functioning of the general meetings of shareholders.

## (2) Executives

## 1. Directors and Audit &amp; Supervisory Board Members

Male: 11, female: 2 (women account for 15.4% of the Company's Directors and Audit & Supervisory Board Members)

Current position	Name	Date of birth	Brief personal history		Term of service	Number of the Company's shares held (Thousands)
Chairman of the Board of Directors	Masayuki Saito	November 8, 1954	April 1977	Joined the Company	See Note 3	17 <sup>7</sup>
			April 2007	General Manager, Finance Department		
			April 2008	Executive Officer; In Charge of Finance & Accounting Division		
			June 2010	Director; Executive Officer; In charge of Finance & Accounting Division		
			April 2011	Director; Managing Executive Officer; In Charge of Finance & Accounting Division		
			April 2012	Representative Director; Senior Managing Executive Officer; Assistant to President and CEO; In Charge of Finance & Accounting Division		
			January 2016	Representative Director; Executive Vice President; Assistant to President and CEO; CFO		
			January 2020	Representative Director; Executive Vice President; Assistant to President and CEO		
Representative Director, President and CEO	Kaoru Ino	September 15, 1957	April 1981	Joined the Company	See Note 3	12 <sup>7</sup>
			April 2008	General Manager, Finance Department		
			April 2011	General Manager, Purchasing and Logistics Department		
			April 2012	Executive Officer; General Manager, Corporate Planning Department		
			January 2014	Executive Officer; In Charge of Corporate Strategy Div.; General Manager, Corporate Planning Department		
			January 2016	Managing Executive Officer; In Charge of Corporate Strategy Div. and Kawamura Memorial DIC Museum of Art		
			March 2016	Director; Managing Executive Officer; In Charge of Corporate Strategy Division and Kawamura Memorial DIC Museum of Art		
			January 2018–present	Representative Director; President and CEO		

Current position	Name	Date of birth	Brief personal history		Term of service	Number of the Company's shares held (Thousands)
Representative Director; Executive Vice President; Assistant to President and CEO	Toshifumi Tamaki	January 30, 1956	April 1980	Joined the Company	See Mote 3	8 <sup>7</sup>
			October 2010	General Manager, Polymer Technical Division 2		
			April 2012	Executive Officer; General Manager, Corporate R&D Div.; General Manager, Color Science Laboratory; General Manager, Central Research Laboratories		
			January 2016	Managing Executive Officer; In Charge of Technical Segment (Technical Administrative Div. and Corporate R&D Div.); General Manager, Technical Administrative Division		
			January 2018	Managing Executive Officer; Head of Corporate Strategy Unit; In Charge of Kawamura Memorial DIC Museum of Art		
			March 2018	Director; Managing Executive Officer; Head of Corporate Strategy Unit; In Charge of Kawamura Memorial DIC Museum of Art		
			January 2021–present	Representative Director; Executive Vice President; Assistant to President and CEO		
Director	Yoshihisa Kawamura	November 12, 1960	April 1984	Joined Mitsui & Co., Ltd.	See Note 3	85
			April 1991	Joined the Company		
			June 2004	Executive Officer; General Manager, Strategic Global Purchasing Division		
			June 2007	Director; General Manager, Corporate Strategic Planning Department		
			April 2008	Director; Managing Executive Officer; President, Graphic Arts Business Operations		
			July 2011	Director; Managing Executive Officer; President, Neo-Graphic Arts Materials Business Operations		
			January 2014–present	Director		

Current position	Name	Date of birth	Brief personal history		Term of service	Number of the Company's shares held (Thousands)
Director; Managing Executive Officer; Head of Corporate Strategy Unit; In Charge of Kawamura Memorial DIC Museum of Art	Takeshi Asai	April 3, 1964	April 1988	Joined the Company	See Note 3	2 <sup>7</sup>
			May 2008	Director, Sun Chemical Corporation		
			October 2010	Managing Director, DIC Europe GmbH		
			January 2016	General Manager, Business Performance Control Department		
			January 2018	Executive Officer; General Manager, Corporate Planning Dept.; In Charge of Osaka Branch and Nagoya Branch		
			January 2021	Executive Officer; Head of Corporate Strategy Unit; In Charge of Kawamura Memorial DIC Museum of Art		
			March 2021	Director; Executive Officer; Head of Corporate Strategy Unit; In Charge of Kawamura Memorial DIC Museum of Art		
			January 2022– present	Director; Managing Executive Officer; Head of Corporate Strategy Unit; In Charge of Kawamura Memorial DIC Museum of Art		
Director; Managing Executive Officer; Head of Finance & Accounting Unit; CFO	Shuji Furuta	June 11, 1964	April 1987	Joined the Company	See Note 3	3 <sup>7</sup>
			January 2016	General Manager, Finance Department		
			January 2019	Executive Officer; Head of Finance & Accounting Unit		
			January 2020	Executive Officer; Head of Finance & Accounting Unit; CFO		
			March 2021	Director; Executive Officer; Head of Finance & Accounting Unit; CFO		
			January 2022–present	Director; Managing Executive Officer; Head of Finance & Accounting Unit; CFO		
Director <sup>1</sup>	Kazuo Tsukahara	April 17, 1950	April 1974	Joined Ishikawajima-Harima Heavy Industries Co., Ltd. (currently, IHI Corporation)	See Note 3	—
			April 2006	Executive Officer, IHI Corporation		
			April 2008	Director and Managing Executive Officer, IHI Corporation		
			April 2012	Representative Director and Executive Vice President, IHI Corporation		
			June 2014	Advisor, IHI Corporation		
			March 2017– present	Outside Director, the Company		

Current position	Name	Date of birth	Brief personal history		Term of service	Number of the Company's shares held (Thousands)
Director <sup>1</sup>	Yoshiaki Tamura	October 3, 1954	April 1979	Joined Asahi Glass Co., Ltd. (currently, AGC Inc.)	See Note 3	—
			January 2007	Executive Officer, AGC Inc.		
			January 2010	Senior Executive Officer, AGC Inc.		
			January 2013	Executive Vice President, AGC Inc.		
			March 2013	Representative Director and Executive Vice President, AGC Inc.		
			March 2014	Executive Vice President, AGC Inc.		
			March 2017	Executive Fellow, AGC Inc.		
			March 2018–present	Outside Director, the Company		
Director <sup>1</sup>	Kuniko Shoji	January 8, 1954	April 1977	Joined Mochida Pharmaceutical Co., Ltd.	See Note 3	—
			July 1986	Joined Johnson & Johnson Medical K.K. (currently, Johnson & Johnson K.K.)		
			September 2002	Joined Terumo Corporation		
			June 2004	Executive Officer, Terumo Corporation		
			June 2010	Director and Senior Executive Officer, Terumo Corporation		
			April 2017	Director and Advisor, Terumo Corporation		
			June 2017	Advisor, Terumo Corporation		
			March 2019–present	Outside Director, the Company		
Full-time Audit & Supervisory Board Member	Hiroyuki Ninomiya	July 8, 1959	April 1984	Joined the Company	See Note 4	4 <sup>7</sup>
			April 2008	General Manager, Accounting Department		
			January 2016	Executive Officer; In Charge of Finance and Accounting Division		
			January 2018	Executive Officer; Head of Finance and Accounting Unit		
			January 2019	Executive Officer; ESG Unit		
			March 2019–present	Audit & Supervisory Board Member		
Full-time Audit & Supervisory Board Member	Akihiro Ikushima	September 8, 1960	April 1983	Joined the Company	See Note 5	4
			April 2012	General Manager, General Affairs and HR Dept.		
			January 2016	Representative Director and President, DIC KOREA CORPORATION		
			January 2019	General Manager, Internal Control Department		
			January 2020	Manager, Internal Control Department		
			March 2020–present	Audit & Supervisory Board Member		

Current position	Name	Date of birth	Brief personal history		Term of service	Number of the Company's shares held (Thousands)
Audit & Supervisory Board Member <sup>2</sup>	Michiko Chiba	June 27, 1961	April 1984	Joined Tokyo Metropolitan Government	See Note 4	—
			October 1989	Joined Showa Ota & Co. (currently, Ernst & Young ShinNihon LLC)		
			March 1993	Registered as certified public accountant		
			July 2010	Senior Partner, Ernst & Young ShinNihon LLC		
			September 2016–present	Founded Chiba Certified Public Accountant Office		
			March 2019–present	Outside Audit & Supervisory Board Member, the Company		
Audit & Supervisory Board Member <sup>2</sup>	Keita Nagura	January 11, 1971	April 1998–present	Registered as an attorney (Osaka Bar Association)	See Note 6	—
				Joined Yodoyabashi Godo Law Office (currently, Yodoyabashi & Yamagami Legal Professional Corporation)		
			February 2002–present	Changed registration as an attorney (Dai-Ichi Tokyo Bar Association)		
			March 2021–present	Outside Audit & Supervisory Board Member, the Company		
Total						138

- (Note) 1. Kazuo Tsukahara, Yoshiaki Tamura and Kuniko Shoji are Outside Directors of the Company
2. Michiko Chiba and Keita Nagura are Outside Audit & Supervisory Board Members of the Company.
3. March 29, 2022–Conclusion of the final annual general meeting of shareholders held in the subsequent fiscal year
4. March 27, 2019–Conclusion of the final annual general meeting of shareholders held in the subsequent four fiscal years
5. March 26, 2020–Conclusion of the final annual general meeting of shareholders held in the subsequent four fiscal years
6. March 30, 2021–Conclusion of the final annual general meeting of shareholders held in the subsequent four fiscal years
7. The number of shares held by the Company includes the number of those to be provided under the performance-based stock compensation plan, a certain portion of which will be sold at market and provided in cash equivalent to the proceeds from the sale.
8. As stipulated in Article 329, paragraph 3 of the Companies Act, the Company has appointed one Alternate Audit & Supervisory Board Member in the event that the number of Outside Audit & Supervisory Board Members falls below the required level. The Alternate Audit & Supervisory Board Member is as follows:

Name	Date of birth	Brief personal history		Number of the Company's shares held (Thousands)
Satoshi Hiyama	October 15, 1972	March 1998	Completed training courses of the Legal Training and Research Institute	—
		April 1998	Assistant Judge, Tokyo District Court	
		April 2000	Assigned to Civil Affairs Bureau, General Secretariat, Supreme Court	
		April 2002	Assistant judge, Tokyo District Court	
		April 2003	Assistant judge, Kokura Branch, Fukuoka District Court	
		August 2004	Joined Anderson Mori & Tomotsune	
		October 2006	Joined Sudoh & Takai Law Office	
		October 2015	Partner, Kikkawa Law Offices	
		July 2017	Partner, Kikkawa Sogo Law Offices	
		March 2018–present	Alternate Audit & Supervisory Board Member, the Company	
		May 2020–present	Representative Partner, Hiyama & Saga Law Offices	

## 2. Outside Directors and Audit & Supervisory Board Members

### (1) The Number of Outside Directors and Audit & Supervisory Board Members and the relationship between them and the Company

There are currently three Outside Directors and two Outside Audit & Supervisory Board Members.

Prior to June 2014, Outside Director, Kazuo Tsukahara, was Representative Director and Executive Vice President of IHI Corporation. Although the Company was entrusted with technical support-related work by IHI in the fiscal year ended December 31, 2021, these transactions accounted for less than 1% of the annual consolidated net sales of IHI or the Company for the period.

Prior to March 2017, Outside Director, Yoshiaki Tamura, was an Executive Vice President of AGC Inc. Although the Company purchased raw materials from AGC in the fiscal year ended December 31, 2021, these transactions accounted for less than 1% of annual consolidated net sales of AGC or the Company for the period.

Prior to August 2016, Outside Audit & Supervisory Board Member, Michiko Chiba, was a Senior Partner at Ernst & Young ShinNihon LLC. Although the Company subcontracted work to Ernst & Young ShinNihon in the fiscal year ended December 31, 2021, these transactions accounted for less than 1% of the annual consolidated net sales of Ernst & Young ShinNihon or the Company for the period.

Except as described above, there are no personal, capital or business relationships, or other interests, between the Company and the Outside Directors or between the Company and the Outside Audit & Supervisory Board Members.

### (2) Basic philosophy regarding the function/role of, and standards for, judging the independence of Outside Directors and Audit & Supervisory Board Members

The three Outside Directors have been involved in corporate management for many years and have extensive experience, which they can be expected to leverage to help strengthen management of the Company. In addition to attending meetings of the Board of Directors, the three Outside Directors serve as members of the Nomination Committee and the Remuneration Committee, enable them to provide supervision management with an independent point of view, thereby helping to reinforce the Company's corporate governance.

Outside Audit & Supervisory Board Member, Michiko Chiba, is qualified as a certified public accountant, has engaged in the audit of companies for many years and has extensive expertise in finance and accounting. Outside Audit & Supervisory Board Member, Keita Nagura, is an attorney in the area of corporate legal affairs and has accumulated a wealth of specialized knowledge and experience. As such, they are able to perform their duties from a professional, multifaceted and independent perspective, thereby helping to reinforce the Company's auditing function.

The Company has established standards for evaluating the independence of individuals appointed to the position of Outside Director or Outside Audit & Supervisory Board Member, which are shown below. The Company's Outside Directors and Outside Audit & Supervisory Board Members are individuals who, based on these standards, are unlikely to have conflicts of interest with ordinary shareholders and who comply with criteria for the independence of Directors/Audit & Supervisory Board Members set by the Tokyo Stock Exchange.

#### Independence Standards for Independent Outside Officers

The Company does not recognize individuals with the connections listed below as being independent in the appointment of Outside Officers:

1. Individuals who are executive officers of the Company of one of its consolidated subsidiaries (collectively, the "DIC Group") at present or have been in the preceding 10 years
2. Individuals to whom any of the following items has applied in the preceding three years:
  - ① A business partner or any executive of said business partner of the DIC Group with whom transactions exceed 3% of the DIC Group's consolidated net sales in a single fiscal year.
  - ② A business partner or any executive of said business partner for whom transactions with the DIC Group exceed 3% of the partner partner's consolidated net sales in a single fiscal year.
  - ③ A shareholder or any executive of said shareholder who holds 5% or more of the voting rights of the Company.

- ④ A principal lender or any executive of said principal lender of the DIC Group from which the loans in a single fiscal year exceed 3% of the DIC Group's total assets.
  - ⑤ An individual who or any individual of an organization which has received a contribution of more than 10 million yen annually from the DIC Group.
  - ⑥ An accountant or member, partner or employee of an audit firm who serves as an accounting auditor or accounting advisor for the DIC Group.
  - ⑦ Excluding those to whom item (6) applies, provides professional services, such as consultants, accountants or attorneys, who received remuneration from the DIC Group in excess of 10 million yen annually not including remuneration received as a director or corporate officer of the DIC Group, or an individual of an organization that received remuneration in excess of 3% of the organization's consolidated net sales in compensation for professional services, such as consulting, accounting or legal services.
  - ⑧ An executive of another company, in the event that an executive of the Company takes office as an outside officer of that company.
3. Spouses and relatives within the second degrees of kinship of individuals listed in Sections 1 and 2.
4. An individual whose term as an outside officer of the Company exceeds eight years.
- (3) Mutual cooperation between the supervision or audits by Outside Directors and Audit & Supervisory Board Members and audits conducted by the internal auditing department, Audit & Supervisory Board Members and accounting auditors, and relationships with internal control department
- Outside Directors regularly receive reports from management and the internal control department on important matters related to the Board of Directors' agenda and management of the Company and express their own opinions as necessary. The outside Audit & Supervisory Board Members regularly receive reports from the accounting auditors and the internal auditing department and express their own opinions as necessary. In addition, the Members work to share information on the results of audits conducted by other Audit & Supervisory Board Members.

### (3) Audits

#### 1. Audit & Supervisory Board Members' audits

##### (1) Organization and personnel

The Audit & Supervisory Board has two full-time and two outside members. Three Audit & Supervisory Board Members have extensive experience and expertise in finance and accounting. Full-time Audit & Supervisory Board Member, Hiroyuki Ninomiya, oversaw corporate accounts at the Company for many years and previously served as General Manager of the Accounting Department and Head of the Finance and Accounting Unit. Outside Audit & Supervisory Board Member, Michiko Chiba, is a certified public accountant with extensive experience in corporate auditing. Outside Audit & Supervisory Board Member, Keita Nagura, provides tax accounting services pursuant to Article 51 of the Certified Public Tax Accountant Act. and as an attorney has broad experience in the field of corporate law.

The Company has also established an Audit & Supervisory Board Members' Office to which it assigns dedicated personnel to assist the members in their duties.

Attendance at Audit & Supervisory Board meetings by Board Members in the fiscal year ended December 31, 2021, was as follows:

Position	Name	Attendance rate	
		Audit & Supervisory Board meetings	Board of Directors' meetings
Full-time Audit & Supervisory Board member	Hiroyuki Ninomiya	100% (16/16)	100% (16/16)
Full-time Audit & Supervisory Board member	Akihiro Ikushima	100% (16/16)	100% (16/16)
Outside Audit & Supervisory Board member	Michiko Chiba	100% (16/16)	100% (16/16)
Outside Audit & Supervisory Board member	Keita Nagura	100% (11/11)	100% (11/11)

Note: Differences in the number of meetings held/attended reflects differences in the date of assumption of office.

##### (2) Activities of the Audit & Supervisory Board

In principle, the Audit & Supervisory Board meets once monthly, but may hold extra meetings as necessary. Activities include determining basic policies, key areas of focus, plans and the division of duties for Audit & Supervisory Board Member audits, overall auditing activity summaries, the approval of remuneration for the accounting auditor, the evaluation and dismissal or reappointment of the accounting auditor, the approval of proposed candidates for the position of Audit & Supervisory Board member, and the conclusion of the audit reports by the Audit & Supervisory Board. The effectiveness of the Audit & Supervisory Board is assessed through self-evaluation and the results of this process are debated and reflected in the audit plan for the subsequent fiscal year to ensure continuous improvement.

In addition, the Audit & Supervisory Board reviews proposals for the Board of Directors in advance, as well as receives and discusses reports on monthly activities, and site and subsidiary investigations, from the full-time Audit & Supervisory Board members; audit plans and audit results from the accounting auditor; and internal control assessments from the internal auditing department.

### (3) Principal activities of Audit & Supervisory Board Members

Audit & Supervisory Board Members carry out a variety of activities commensurate with their respective roles in accordance with the basic audit policy and plan determined by the Audit & Supervisory Board. Of note, Audit & Supervisory Board Members:

- attend meetings of the Board of Directors, Executive Committee, Sustainability Committee and its Working Group, Quality Committee, Budget Review Meeting, and the Boards of Directors of regional headquarters, among others, and express opinions, as necessary;
- meet on a quarterly basis with representative directors and other members of senior management to obtain information and exchange opinions on management policies and the corporate governance framework and attend meetings with executive officers to obtain information and exchange opinions on management policies and risks specific to their particular areas of responsibility;
- meet regularly with outside directors to exchange information and opinions;
- meet with the accounting auditor, general managers of the internal auditing department and corporate headquarters' administrative departments, and the Audit & Supervisory officers of subsidiaries and listed affiliated companies in Japan to exchange information and opinions;
- receive briefings from and exchange opinions with the accounting auditor and the head of the Finance and Accounting Unit regarding the Company's quarterly and fiscal year end performance; and
- investigate the operational status of business, financial and internal control systems by conducting on-site audits at Company sites and subsidiaries; observing internal audits (internal control, quality, and environmental and safety management), accounting audits and physical stocktaking; and inspecting monthly business reports, *Ringi* (approval by written circular) documentation, and internal audit records.

## 2. Internal audits

The internal auditing department—comprising local teams of employees covering Japan (11), the Asia-Pacific region (seven), the PRC (three) and the Americas, Europe, the Middle East and Africa (17)—is charged with internal auditing, which includes monitoring the effectiveness of internal controls, based on annual audit plans, and selects audit targets based on risk assessments.

The internal auditing department reports periodically to the Representative Directors on important matters discovered through this process, as well as on the status of improvements, with those matters of particular importance also being reported to the Board of Directors. The results of internal audits are also reported to the Audit & Supervisory Board.

## 3. Accounting audits

### (1) Name of audit firm

Deloitte Touche Tohmatsu LLC

### (2) Number of consecutive fiscal years auditing firm has conducted accounting audit

48 years

The number of consecutive fiscal years above is the extent to which the Company can confirm accurately. The actual number of consecutive fiscal years the auditing firm has conducted accounting audits may exceed this.

### (3) Certified public accountants who executed accounting audit

Hidetsugu Tsuda

Takaya Otake

Teppei Yamamoto

### (4) Composition of team of assistants involved in accounting audit

Certified public accountants: 16

Others: 13

(5) Evaluation of accounting auditor by Audit & Supervisory Board Members and the Audit & Supervisory Board

The Audit & Supervisory Board selects an auditing firm to serve as the Company's accounting auditor each fiscal year using criteria it has established ("selection criteria for candidates for the accounting auditor"), which are the auditing firm's (1) quality management, (2) auditing team, (3) remuneration, etc., (4) communication with the Audit & Supervisory Board Members, (5) communication with executives and the internal auditing department, etc., (6) group auditing capabilities, and (7) response to misconduct risk.

After evaluation for the fiscal year ended December 31, 2021, the Audit & Supervisory Board determined that Deloitte Touche Tohmatsu LLC had the necessary expertise, independence, QMS and global network to meet its criteria.

(6) Method of, and reasons for, selecting the accounting auditor

The policy of the Audit & Supervisory Board is to reappoint the accounting auditor if the audit method employed and results obtained in the preceding fiscal year are recognized as appropriate and the Audit & Supervisory Board's evaluation of the accounting auditor shows that reappointment is warranted. In line with this policy, the Audit & Supervisory Board has resolved to reappoint Deloitte Touche Tohmatsu LLC as the Company's accounting auditor.

The Audit & Supervisory Board will dismiss the accounting auditor with the unanimous consent of all Board Members if it determines that any act of the accounting auditor falls under any of the provisions of Article 340, Paragraph 1 of the Companies Act of Japan. If the accounting auditor is dismissed, an Audit & Supervisory Board Member elected mutually by all Board Members will report the dismissal, as well as the reasons behind it, at the first Annual General Meeting of Shareholders thereafter. In addition, should it judge such a move necessary—i.e., if it determines that factors have impaired the competence and/or independence of the accounting auditor, thus making an appropriate audit difficult—the Audit & Supervisory Board will determine the content of a proposal for the dismissal or nonreappointment of the accounting auditor that the Board of Directors will submit to the Annual General Meeting of Shareholders.

#### 4. Remuneration for audits

(1) Remuneration for the accounting auditors, etc.

Classification	Previous fiscal year ended December 31, 2020		Current fiscal year ended December 31, 2021	
	Fees for audit services (Millions of yen)	Fees for non-audit services (Millions of yen)	Fees for audit services (Millions of yen)	Fees for non-audit services (Millions of yen)
The Company	151	2	154	2
Consolidated subsidiaries	75	5	75	6
Total	226	7	228	8

Non-audit services for the Company include the preparation of comfort letters.

Non-audit services for consolidated subsidiaries include the review of financial results.

(2) Remuneration for Deloitte Touche Tohmatsu, which belong to the same network as the accounting auditors (excluding (1))

Classification	Previous fiscal year ended December 31, 2020		Current fiscal year ended December 31, 2021	
	Fees for audit services (Millions of yen)	Fees for non-audit services (Millions of yen)	Fees for audit services (Millions of yen)	Fees for non-audit services (Millions of yen)
The Company	—	11	1	35
Consolidated subsidiaries	490	78	615	65
Total	490	89	617	100

Non-audit services for the Company include market research.

Non-audit services for consolidated subsidiaries include accounting and tax-related advisory services.

(3) Other fees paid for important audit attestation-related services

Previous fiscal year ended December 31, 2020: Not applicable

Current fiscal year ended December 31, 2021: Not applicable

(4) Policy on determining fees for audits

Not applicable

(5) Rationale behind approval by the Audit & Supervisory Board of remuneration for the accounting auditors

The Audit & Supervisory Board received briefings from directors and senior executives, as well as from the accounting auditor, regarding the accounting auditor's performance, results and quality of audits conducted in past years, the audit plan for the fiscal year ended December 31, 2021, and the basis for calculating the estimated remuneration. After reviewing these matters, the Audit & Supervisory Board approved remuneration for the accounting auditor for the fiscal year ended December 31, 2021, deeming it appropriate, given the audit plan, and sufficient to maintain audit quality.

5. Mutual cooperation among the internal audits, Audit & Supervisory Board Member audits and accounting audits, and relationship between these audits and the internal control department

The Audit & Supervisory Board Members, accounting auditors and internal auditing department conduct independent audits but collaborate closely, holding regular meetings to liaise with each other, working together to enhance the efficiency and effectiveness of auditing activities.

The results of these various audits are conveyed to the internal control department at liaison meetings and otherwise as necessary, based on which the department promotes the establishment and implementation of internal control systems and coordinates to ensure these internal controls work effectively.

(4) Remuneration for officers

1. Details and method for determining the policy on and amount of remuneration, etc., for officers and calculation thereof

- (1) The Company has established an executive compensation system based on a policy for remuneration designed to secure diverse, capable human resources to facilitate the steady implementation of management plans and business strategies designed to ensure sustainable development and the medium- to long-term improvement of corporate value, as well as to further advance global management.
- (2) Remuneration for directors consists of basic remuneration (fixed); bonuses, which are linked to consolidated operating results and achievement of individual targets (performance based); and stock compensation, which is linked to the medium- to long-term achievement of performance targets and year-on-year percentage change in income (performance based). Directors who serve concurrently as executive officers are eligible for bonuses and stock compensation, while other directors and outside directors are eligible for basic remuneration only. Audit & Supervisory Board Members are also eligible for basic remuneration only.
- (3) In accordance with the Company's policy on basic remuneration, the Remuneration Committee determines the composition of remuneration, that is, the weighting of basic and performance-based remuneration. In making this determination, the Company verifies the appropriateness of compensation levels, etc., by referring to a management compensation database offered by an external research organization and benchmarks total remuneration and the composition thereof for each position. The proportion of each component of remuneration, assuming total remuneration is 100, is as follows: (Performance-based remuneration is the standard payment in the event targets are 100% achieved.)

Position	Basic remuneration (fixed)	Performance-based remuneration		Fixed remuneration: Performance-based remuneration
		Bonus	Stock compensation	
Representative director	55	30	15	55 : 45
Directors	60	25	15	60 : 40

(Excluding outside directors)

- (4) Basic remuneration for directors is determined based on level of responsibility, with consideration given to prevailing market rates. Bonuses are linked to increases/decreases in consolidated operating income, taking into account of factors such as evaluation of company-wide or department performance and individual contribution, with consideration given to prevailing market rates. Individual remuneration is determined by the Remuneration Committee, which has been entrusted with this responsibility by the Board of Directors. Stock compensation, which is awarded as non-monetary remuneration to directors who serve concurrently as executive officers, is determined based on the degree of achievement of targets for consolidated operating income and net income attributable to owners of the parent, set forth in the medium-term management plan, as well as year-on-year percentage change in both, and granted in the form of points each fiscal year. Upon retirement, these directors receive shares of the Company or a cash equivalent to the market value of the Company's shares commensurate with the number of points accumulated.
- (5) The Board of Directors has confirmed that the method used to determine remuneration and the remuneration thus determined are consistent with the policy decided by the Board of Directors, and has judged that remuneration for each individual director for the fiscal year ended December 31, 2021, is in accordance with the policy.
- (6) Basic remuneration for Audit & Supervisory Board Members is determined through discussion involving all Audit & Supervisory Board Members, in accordance with internal rules established by the Audit & Supervisory Board, with into consideration given to ensuring a balance with remuneration for Directors of the Company and to prevailing market rates.

(7) The date of resolution at the annual general meeting of shareholders and the maximum remuneration for directors and Audit & Supervisory Board Members are as follows:

Position	Type of remuneration	Maximum remuneration	Date of resolution of the annual general meeting of shareholders
Director	Basic remuneration (fixed)	¥700 million/year (aggregate of basic remuneration and bonus)	June 27, 2007
	Bonus		
	Performance-based remuneration	¥250 million/year (maximum contribution by the Company to the trust over three fiscal years)	March 29, 2017
Audit & Supervisory Board Member	Basic remuneration (fixed)	¥100 million/year	June 28, 2005

As of the submission date for the annual securities report for the Company's 124th fiscal year, there were nine directors (six in-house and three outside) and four Audit & Supervisory Board Members (two in-house and two outside) eligible for basic remuneration (fixed). Four directors (all in-house), who serve concurrently as executive officers, were eligible for bonuses and stock compensation, both of which are performance based.

## 2. Total remuneration by position, type, and number of eligible officers

Position	Total amount of remuneration (Millions of yen)	Total amount of remuneration by type (Millions of yen)			Number of eligible individuals
		Basic remuneration (fixed)	Performance-based remuneration		
			Bonus	Stock compensation	
Directors (excluding outside directors)	290	206	68	16	7 persons
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	60	60	—	—	2 persons
Outside directors	43	43	—	—	3 persons
Outside Audit & Supervisory Board Members	29	29	—	—	3 persons

(Note) 1. The above table includes remuneration paid to one director (not including outside directors) and one outside Audit & Supervisory Board Member who retired at the conclusion of the 123rd Annual General Meeting of Shareholders held on March 30, 2021.

2. The total for stock compensation is the total monetary value of shares corresponding to points granted for the fiscal year ended December 31, 2021, based on the performance-based stock compensation plan.

## 3. Compensation description for total compensation of 100 million yen or more

Name	Total amount of remuneration (Millions of yen)	Title	Company	Total amount of remuneration by type (Millions of yen)		
				Basic remuneration (fixed)	Performance-based remuneration	
					Bonus	Stock compensation
Kaoru Ino	105	Director	Reporting company	66	32	7

4. Method used to calculate bonuses for directors (performance based)

Bonuses for directors are deliberated by the Remuneration Committee once every three years, with consideration given to prevailing market rates, and consist of a standard component, determined according to level of responsibility, and a performance-based component, linked to consolidated operating income. Bonus amounts are calculated by multiplying the standard component, which is commensurate with position, by the degree of achievement of the period's consolidated operating income target, taking into account factors such as evaluation of Company-wide or department performance and individual contribution, with the limit for increases and decreases set at 30%.

The amount of each bonus is determined following deliberation by the Remuneration Committee.

The key performance indicator (KPI) used in calculating bonuses is consolidated operating income, which is representative of the quality of core businesses and the most important indicator for formulation of the Company's strategies.

< Reference > Calculation formula for standard bonus amount for each position

Standard component of annual bonus = Position-specific basic bonus x (Consolidated operating income (actual) / Consolidated operating income benchmark) x Coefficient proportionate to evaluation of individual performance

[Standard component of annual bonus (commensurate with position) (FY2021) = Position-specific basic bonus x (¥42,893 million / ¥56,500 million) x Coefficient proportionate to evaluation of individual performance]

5. Method used to calculate points granted each fiscal year as performance-based stock compensation and number of shares/monetary amount granted upon retirement

(1) Method used to calculate points granted and eligible individuals

A predetermined number of points, calculated using the following formula, is granted annually to directors on the date of the annual general meeting of shareholders. Fractions of less than one point are rounded down. Eligible individuals are limited to those who served concurrently as executive officers on the last day of the previous fiscal year. Directors who serve concurrently as executive officers on the last day of the fiscal year are considered to have been in office for the entire fiscal year.

$$\text{Points granted} = \frac{80\% \text{ of annual points commensurate with position}^1}{\text{position}^1} + \left( \frac{100\% \text{ of annual points commensurate with position}^1}{\text{with position}^1} - \frac{80\% \text{ of annual points commensurate with position}^1}{\text{with position}^1} \right) \times \frac{\text{KPI for calculating annual points}^2}{20\%} - 80\%$$

Note 1: Number of points granted and number of eligible individuals by rank

The following table shows the number of points for the annual calculation indicators of 80% and 100%, which serve as the basis for calculating the number of points awarded.

Rank	Number of eligible individuals	Annual points	
		80%	100%
Representative director, president and CEO	1	1,813	4,533
Representative director and executive vice president	1	1,246	3,115
Director and senior managing executive officer	—	952	2,381
Director and managing executive officer	—	750	1,874
Director and executive officer	2	527	1,317

"Number of eligible individuals" is the number of directors who served currently as executive officers as of December 31, 2021.

Calculations for each rank are as of the end of the previous fiscal year.

Note 2: KPI for calculating number of annual points granted

The KPIs used for calculating the number of annual points granted are the degree of achievement of targets for consolidated operating income and net income attributable to owners of the parent, set forth in the medium-term management plan, as well as year-on-year percentage change in both. (Figures are rounded down to two decimal places.) The upper limit for degree of achievement is set at 110%, while the lower limit is set at 80%.

$$\text{KPI for calculating annual points} = \text{Degree of achievement of medium-term management plan targets}^{*1} \times 0.6 + \frac{\text{Percentage change in income from the previous fiscal year}^{*2}}{\text{Net income attributable to owners of the parent target achievement rate}} \times 0.4$$

(\*1) Degree of achievement of medium-term management plan targets is calculated using the following formula:

$$\text{Degree of achievement of medium-term management plan targets} = \frac{\text{Consolidated operating income target achievement rate}}{\text{Net income attributable to owners of the parent target achievement rate}} \times 0.6 + \dots \times 0.4$$

(\*2) Percentage change in income from the previous fiscal year is calculated using the following formula:

$$\text{Percentage change in income from the previous fiscal year} = \frac{\text{Consolidated operating income year-on-year growth rate}}{\text{Net income attributable to owners of the parent year-on-year growth}} \times 0.6 + \dots \times 0.4$$

(Reference) Targets for consolidated operating income and net income attributable to owners of the parent set forth in the DIC111 medium-term management plan.

(Millions of yen)

	FY 2020 Actual	FY 2021 Actual	FY 2021 Target
Operating income	39,663	42,893	70,000
Net income attributable to owners of the parent	13,233	4,365	45,000

The points obtained from the above calculations will be accumulated up to the date of retirement, and shares and money will be delivered according to the accumulated number as follows.

(2) Method used to calculate the number of shares and monetary payment bestowed upon retirement owing to expiration of term or at the Company's convenience

The number of shares bestowed is calculated using the formula below. In this calculation, if the resulting number of shares is a fractional number constituting less than one trading unit, it is rounded down.

$$\text{Number of shares} = \left( \frac{\text{Accumulated number of points as of the date of retirement}}{\text{Points equivalent to fractional numbers of shares constituting less than one trading unit}^{1,2}} \right) \times 70\%$$

Note 1: Fewer than 100 points

Note 2: The number of shares derived by subtracting "Points equivalent to fractional numbers of shares constituting less than one trading unit" from "Accumulated number of points as of the date of retirement" is hereinafter referred to as "shares bestowed."

The monetary payment bestowed is calculated using the formula below. If multiplying "Number of shares bestowed" by 30% yields a fractional number below 100, it is rounded up to 100.

$$\text{Monetary payment} = \left( \text{Number of shares bestowed} \times 30\% + \frac{\text{Points equivalent to fractional numbers of shares constituting less than one trading unit}^1}{\text{Market price of the Company's shares as of the date of retirement}^2} \right) \times \dots$$

Note 1: Fewer than 100 points

Note 2: "Market price of the Company's shares as of the date of retirement" is the closing price or quoted price on the Tokyo Stock Exchange. If the closing price or quoted price is not announced on this date, the calculation will be made using the most recent date for which the closing price or quoted price can be obtained.

(3) In the event a director retires for personal reasons

Only shares are bestowed. The calculation used is as follows:

$$\text{Number of shares} = \frac{\text{Accumulated number of points as of the date of retirement}}{\text{as of the date of retirement}}$$

(4) In the event a director is deemed to have retired as a result of his/her death

A monetary payment only is given to the family. The calculation used is as follows:

$$\text{Monetary payment to family} = \frac{\text{Accumulated number of points as of the date of retirement}}{\text{as of the date of retirement}} \times \text{Market price of the Company's shares as of the date of death}^1$$

Note 1: "Market price of the Company's shares as of the date of death" is the closing price or quoted price on the Tokyo Stock Exchange. If the closing price or quoted price is not announced on this date, the calculation will be made using the most recent date for which the closing price or quoted price can be obtained.

(5) Other matters of note

- Directors eligible for performance-based stock compensation are those who serve concurrently as executive officers, as stipulated in Article 34, paragraph 1, item 3 of Japan's Corporation Tax Act.
- The "indicators of profits of the business year" stipulated in Article 34, paragraph 1, item 3 (a) of Japan's Corporation Tax Act are consolidated operating income and net income attributable to owners of the parent.
- The maximum number of shares equivalent to annual points commensurate with position prescribed in Article 34, paragraph 1, item 3 (a) (i) of Japan's Corporation Tax Act is as follows:

Rank	Maximum number of shares
Representative director, president and CEO	5,893
Representative director and executive vice president	4,050
Director and senior managing executive officer	3,096
Director and managing executive officer	2,436
Director and executive officer	1,712

6. Committee involved in revising methods used to assess, and in determining policies for and the method used to calculate, remuneration, etc., for directors

The Remuneration Committee was established by the Board of Directors to enhance the objectivity of procedures for determining remuneration for directors and executive officers. The committee deliberates and determines policies for and the method used to calculate remuneration for directors and executive officers.

• Members of the Remuneration Committee

Chairman:	Kazuo Tsukahara	Outside Director
Members:	Masayuki Saito	Chairman of the Board of Directors
	Kaoru Ino	Representative Director; President and CEO
	Yoshiaki Tamura	Outside Director
	Kuniko Shoji	Outside Director

• Authority delegated

Matters concerning the determination of remuneration for individual Directors

• Reasons for entrusting authority

This is because the Company believes that objectively evaluating each Director while taking into consideration the Company's overall business performance and other factors is not a matter suited to consideration by Directors, but rather is more appropriately discussed and deliberated by the Remuneration Committee, which consists of the Chairman of the Board of Directors and the President and CEO, who have an overall view of the Company, and Outside Directors, who are in a position to increase transparency and fairness. To ensure the appropriate exercise of delegated authority, the Remuneration Committee is chaired by an Outside Director and a majority of the members are Outside Directors.

Committee meeting data for the fiscal year ended December 31, 2021

February 25, 2021: Determined bonuses for officers for the fiscal year ended December 31, 2020; determined stock compensation points for eligible directors for the fiscal year ended December 31, 2020

December 22, 2021: Deliberated and determined fixed remuneration for the fiscal year ending December 31, 2022; determined stock compensation points accumulated by retiring directors

(5) Securities held

1. Classification of investment securities

The Company classifies investment securities for holding purposes—i.e., as held for pure investment purposes—to obtain returns from fluctuations in stock price and/or dividends—or for purposes other than pure investment. Investment securities are classified as held for purposes other than pure investment if they are held with a reasonable expectation that they will contribute to sustainable growth or the improvement of corporate value over the medium to long term.

2. Investment securities held for purposes other than pure investment

(1) Holding policy, method used to verify the rationality of individual holdings and details of reviews by the Board of Directors

The Company may strategically hold listed shares, with the exception of those of affiliated companies, only when there is a reasonable expectation that they will contribute to sustainable growth or the improvement of corporate value over the medium to long term.

The Board of Directors annually reviews the suitability of individual strategic holdings, examining whether benefits associated with possession are commensurate with the cost of capital, and what the risks of not holding the shares are, to verify the suitability of holding the shares. If, as a result of this review, the significance of a holding is judged to have weakened, it will, in principle, be reduced.

At the Board of Directors' meeting held on March 5, 2021, the Company reviewed the suitability of all investment securities held for purposes other than pure investment as of December 31, 2020, as described above. As a result, it was confirmed that the significance of certain holdings was lacking. Accordingly, the Company will reduce relevant holdings going forward, giving consideration to impact on the market. Regarding holdings which were judged suitable, should circumstances change that call this judgment into question, the Company will also reconsider reduction or other measures.

(2) Number of stocks and amount on balance sheet

	Number of stocks	Amount on balance sheet (Millions of yen)
Unlisted stocks	53	1,304
Listed stocks	26	13,289

Stocks for which the number of shares held increased in current fiscal year ended December 31, 2021

	Number of stocks	Costs associated with the increase in number of shares (Millions of yen)	Reason for increase in number of shares
Unlisted stocks	2	96	Collaborative relationship was strengthened
Listed stocks	2	8	Shares were acquired through the employee shareholders' association of an affiliated company

Stocks for which the number of shares held decreased in current fiscal year ended December 31, 2021

	Number of stocks	Proceeds associated with the decrease in number of shares (Millions of yen)
Unlisted stocks	1	104
Listed stocks	5	729

## (3) Stock name, number of shares and amount on balance sheet for specified investment shares and deemed shareholdings

## Specified investment shares

Stock	FY2021	FY2020	Purpose of holding/quantitative effects of holding/reasons for increase in number of shares	Holds shares in the Company
	Number of shares	Number of shares		
	Amount on balance sheet (Millions of yen)	Amount on balance sheet (Millions of yen)		
RENAISSANCE, INC.	3,742,000	3,742,000	Originally a DIC Group start-up. The Company currently has transactions in the area of color materials. The purpose of holding is to maintain/strengthen business relations. <sup>3</sup>	No
	4,172	3,342		
Dai-ichi Life Holdings, Inc.	1,438,400	1,438,400	The Company has transactions in areas such as financing and insurance. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	Yes
	3,345	2,232		
Mitsubishi UFJ Financial Group, Inc.	3,191,000	3,191,000	The Company has transactions in areas such as financing. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	Yes
	1,994	1,455		
Green Earth Institute Co., Ltd.	417,000	—	The shares were recategorized as specified investment shares because they were listed on the Tokyo Stock Exchange Mothers Index during this fiscal year. The Company conducts joint research aimed at creating new businesses. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	No
	771	—		
DAITO TRUST CONSTRUCTION CO., LTD.	50,000	50,000	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	No
	659	482		
Asahi Songwon Colors Ltd.	865,200	865,200	The Company has transactions in the area of color materials. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	No
	396	306		
KANSAI PAINT CO., LTD.	148,583	145,942	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	Yes
	371	463		
DAIWA HOUSE INDUSTRY CO., LTD.	100,000	100,000	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	No
	331	306		
RIKEN TECHNOS CORP.	504,000	504,000	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	Yes
	262	227		
Nippon Electric Glass Co., Ltd.	74,600	74,600	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	Yes
	220	168		
TAKARA STANDARD CO., LTD.	109,700	109,740	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relations. <sup>3</sup>	Yes
	155	166		
AksharChem (India) Ltd.	166,384	166,384	The Company has transactions in the area of color materials. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	No
	118	60		
Dai Nippon Toryo Co., Ltd.	110,800	110,800	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	Yes
	92	106		

Stock	FY2021	FY2020	Purpose of holding/quantitative effects of holding/reasons for increase in number of shares	Holds shares in the Company
	Number of shares	Number of shares		
	Amount on balance sheet (Millions of yen)	Amount on balance sheet (Millions of yen)		
OKAYA & CO., LTD.	8,400	8,400	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	Yes
	81	69		
ROCK PAINT CO., LTD.	100,000	100,000	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	Yes
	76	75		
TAYCA CORPORATION	50,000	50,000	The Company procures raw materials. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	Yes
	65	76		
NODA CORPORATION	53,800	55,000	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relations. <sup>3</sup>	Yes
	49	36		
ATOMIX CO., LTD.	54,000	54,000	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	Yes
	34	35		
Isamu Paint Co., Ltd.	6,900	6,900	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	Yes
	24	23		
KIKUSUI CHEMICAL INDUSTRIES CO., LTD.	55,000	55,000	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	No
	20	22		
Nihon Tokushu Toryo Co., Ltd.	20,000	20,000	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	No
	17	24		
Origin Co., Ltd.	12,018	11,429	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	No
	15	15		
KOMATSU MATERE Co., Ltd.	11,000	11,000	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	No
	14	11		
Okura Industrial Co., Ltd.	1,600	1,600	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	No
	4	3		
ASAHIPEN CORPORATION	1,000	1,000	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	No
	2	2		
TIGERS POLYMER CORPORATION	1,380	1,380	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. <sup>2</sup>	Yes
	1	1		

Stock	FY2021	FY2020	Purpose of holding/quantitative effects of holding/reasons for increase in number of shares	Holds shares in the Company
	Number of shares	Number of shares		
	Amount on balance sheet (Millions of yen)	Amount on balance sheet (Millions of yen)		
SAPPORO HOLDINGS LIMITED	—	297,600	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relations. From the perspective of trade secrets and other factors, the quantitative effect of holding the shares is difficult to disclose. However, these holdings have been reviewed by examining whether benefits associated with possession are commensurate with the cost of capital and what the risks of not holding the shares are. All of the shares were sold in the fiscal year ended December 31, 2021.	No
	—	593		
LIXIL Corporation	—	9,500	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relations. From the perspective of trade secrets and other factors, the quantitative effect of holding the shares is difficult to disclose. However, these holdings have been reviewed by examining whether benefits associated with possession are commensurate with the cost of capital and what the risks of not holding the shares are. All of the shares were sold in the fiscal year ended December 31, 2021.	No
	—	21		
WOOD ONE CO., LTD.	—	200	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relations. From the perspective of trade secrets and other factors, the quantitative effect of holding the shares is difficult to disclose. However, these holdings have been reviewed by examining whether benefits associated with possession are commensurate with the cost of capital and what the risks of not holding the shares are. All of the shares were sold in the fiscal year ended December 31, 2021.	No
	—	0		

(Notes)

1. “—” indicates stocks that are not held as specified investment securities.
2. From the perspective of trade secrets and other factors, the quantitative effect of holding shares is difficult to disclose. However, these holdings have been reviewed by examining whether benefits associated with possession are commensurate with the cost of capital, and what the risks of not holding the shares are, and their suitability has been verified.
3. From the perspective of trade secrets and other factors, the quantitative effect of holding the shares is difficult to disclose. However, these holdings have been reviewed by examining whether benefits associated with possession are commensurate with the cost of capital and what the risks of not holding the shares are, and review results will be taken into consideration in determining an appropriate policy.

## Deemed held securities

Stock	FY2021	FY2020	Purpose of holding/quantitative effects of holding/reasons for increase in number of shares	Holds shares in the Company
	Number of shares <sup>1</sup>	Number of shares <sup>1</sup>		
	Amount on balance sheet <sup>2</sup> (Millions of yen)	Amount on balance sheet <sup>2</sup> (Millions of yen)		
NIPPON PAINT HOLDINGS CO.,LTD. <sup>7</sup>	6,493,890	2,597,538	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	No
	8,143	29,430		
TOPPAN INC.	3,101,765	3,101,765	The Company has transactions in the area of printing materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	Yes
	6,687	4,513		
Kyodo Printing Co., Ltd.	854,199	854,199	The Company has transactions in the area of printing materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	Yes
	2,447	2,474		
Nissha Co., Ltd.	905,259	905,259	The Company has transactions in the area of printing materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	Yes
	1,512	1,356		
FP CORPORATION	224,000	224,000	The Company has transactions in the area of packaging materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	No
	878	971		
Mitsubishi UFJ Financial Group, Inc.	1,350,000	1,350,000	The Company procures funds, etc. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	Yes
	844	616		
KANSAI PAINT CO., LTD.	309,431	309,431	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	Yes
	774	982		

Stock	FY2021	FY2020	Purpose of holding/quantitative effects of holding/reasons for increase in number of shares	Holds shares in the Company
	Number of shares <sup>1</sup>	Number of shares <sup>1</sup>		
	Amount on balance sheet <sup>2</sup> (Millions of yen)	Amount on balance sheet <sup>2</sup> (Millions of yen)		
Dai Nippon Printing Co., Ltd.	261,501	261,501	The Company has transactions in the area of printing materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	Yes
	757	485		
Mizuho Financial Group, Inc.	477,700	477,700	The Company procures funds, etc. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	Yes
	699	625		
MITSUMURA PRINTING CO., LTD.	457,020	457,020	The Company has transactions in the area of printing materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	Yes
	631	814		
DAIWA HOUSE INDUSTRY CO., LTD.	80,000	80,000	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	No
	265	245		
SEIREN CO., LTD.	100,000	100,000	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	Yes
	252	156		
Sumitomo Mitsui Financial Group, Inc.	61,680	61,680	The Company procures funds, etc. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	Yes
	243	197		
HOKKAN HOLDINGS LIMITED	158,520	158,520	The Company has transactions in the area of printing materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	Yes
	230	222		

Stock	FY2021	FY2020	Purpose of holding/quantitative effects of holding/reasons for increase in number of shares	Holds shares in the Company
	Number of shares <sup>1</sup>	Number of shares <sup>1</sup>		
	Amount on balance sheet <sup>2</sup> (Millions of yen)	Amount on balance sheet <sup>2</sup> (Millions of yen)		
NAGASE & CO., LTD.	117,410	117,410	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	Yes
	219	177		
Achilles Corporation	138,650	138,650	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	Yes
	173	196		
TAKARA STANDARD CO., LTD.	74,600	110,000	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>6</sup>	Yes
	105	167		
Nihon Tokushu Toryo Co., Ltd.	112,739	112,739	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	No
	98	136		
TOKYO PRINTING INK MFG. CO., LTD	33,000	33,000	The Company has transactions in the area of color materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	Yes
	77	66		
THE SHIGA BANK, LTD.	26,099	26,099	The Company procures funds, etc. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	Yes
	54	55		
TIGERS POLYMER CORPORATION	78,000	78,000	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	Yes
	36	31		

Stock	FY2021	FY2020	Purpose of holding/quantitative effects of holding/reasons for increase in number of shares	Holds shares in the Company
	Number of shares <sup>1</sup>	Number of shares <sup>1</sup>		
	Amount on balance sheet <sup>2</sup> (Millions of yen)	Amount on balance sheet <sup>2</sup> (Millions of yen)		
Nozaki Insatsu Shigyo Co, Ltd.	153,723	153,723	The Company has transactions in the area of printing materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	No
	18	18		
NIHONSEIKAN K.K.	4,620	4,620	The Company has transactions in the area of printing materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights. <sup>5</sup>	Yes
	5	6		
Sekisui Chemical Co., Ltd.	—	109,000	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relationship. Quantitative holding effects are difficult to describe from the viewpoint of trade secrets, etc., but we verified the appropriateness of holding after closely examining the purpose, whether the benefits associated with holding are commensurate with the cost of capital, and the risks of not holding. During the fiscal year under review, all shares held by the Company have been sold.	No
	—	213		
WOOD ONE CO., LTD.	—	30,572	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relationship. Quantitative holding effects are difficult to describe from the viewpoint of trade secrets, etc., but we verified the appropriateness of holding after closely examining the purpose, whether the benefits associated with holding are commensurate with the cost of capital, and the risks of not holding. During the fiscal year under review, all shares held by the Company have been sold.	No
	—	34		
Cleanup Corporation	—	46,000	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relationship. Quantitative holding effects are difficult to describe from the viewpoint of trade secrets, etc., but we verified the appropriateness of holding after closely examining the purpose, whether the benefits associated with holding are commensurate with the cost of capital, and the risks of not holding. During the fiscal year under review, all shares held by the Company have been sold.	No
	—	22		

(Notes)

1. The number of shares is the number of shares with voting rights.

2. The amount on balance sheet for deemed shareholding is obtained by multiplying the market price of shares as of the

last day of the fiscal year by the number of shares with voting rights.

3. When selecting the top stocks in terms of amount on balance sheet, these stocks are not considered “specified investment shares” and are not included in the calculation.
4. “—” indicates stocks that are not deemed held investment securities.
5. From the perspective of trade secrets and other factors, the quantitative effect of holding stocks is difficult to disclose. However, these holdings have been reviewed by examining whether benefits associated with possession are commensurate with the cost of capital, and what the risks of not holding the shares are, and their suitability has been verified.
6. From the perspective of trade secrets and other factors, the quantitative effect of holding stocks is difficult to disclose. However, these holdings have been reviewed by examining whether benefits associated with possession are commensurate with the cost of capital, and what the risks of not holding the shares are, and review results will be taken into consideration in determining an appropriate policy.
7. Nippon Paint Holdings Co., Ltd. implemented a five-for-one common stock split effective April 1, 2021.

## V. Financial Information

### 1. Basis of Presenting the Consolidated Financial Statements and Non-consolidated Financial Statements

(1) The Company's consolidated financial statements are prepared in conformity with the "Regulations Concerning Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance Regulation No. 28, 1976).

(2) The non-consolidated financial statements are prepared in conformity with the "Regulations Concerning Terminology, Forms, and Preparation Methods of Financial Statements (Ministry of Finance Regulation No. 59, 1963) (hereinafter, "Regulations on Financial Statements.")

As a company designated for the submission of financial statements prepared in accordance with special provision, the Company prepares its financial statements pursuant to Article 127 of the Regulations on Financial Statements.

### 2. About Audit Certification

Pursuant to the provisions of Article 193-2, Paragraph 1, of the Financial Instruments and Exchange Act, The Company arranged for Deloitte Touche Tohmatsu LLC to conduct independent audit of the consolidated financial statements for the fiscal year (January 1, 2021 to December 31, 2021) and non-consolidated financial statements for the fiscal year (January 1, 2021 to December 31, 2021) .

### 3. Particular efforts to secure the appropriateness of the consolidated financial statements and other financial reports

The Company conducts efforts to secure the appropriateness of the consolidated financial statements and other financial reports. Specifically, the Company endeavors to acquire information that would ensure a good understanding of the corporate accounting standards and keep itself updated on any changes in the accounting standards by participating in the Financial Accounting Standards Foundation and educational opportunities provided by Financial Accounting Standards Foundation.

1. Consolidated Financial Statements  
 (1) Consolidated Financial Statements  
 ① Consolidated Balance Sheet

(Millions of yen)

	Previous fiscal year as of December 31, 2020	Current fiscal year as of December 31, 2021
<b>Assets</b>		
Current assets		
Cash and deposits	* <sup>3</sup> 44,885	* <sup>3</sup> 38,253
Notes and accounts receivable-trade	* <sup>1, 3</sup> 197,595	* <sup>1, 3</sup> 237,916
Merchandise and finished goods	* <sup>3</sup> 78,273	* <sup>3</sup> 132,773
Work in process	* <sup>3</sup> 9,065	* <sup>3</sup> 9,651
Raw materials and supplies	* <sup>3</sup> 55,058	* <sup>3</sup> 91,199
Other	24,294	36,282
Allowance for doubtful accounts	(9,171)	(3,959)
Total current assets	399,997	542,114
Non-current assets		
Property, plant and equipment		
Buildings and structures	262,318	288,987
Accumulated depreciation	(175,432)	(185,949)
Buildings and structures, net	* <sup>3</sup> 86,885	* <sup>3</sup> 103,039
Machinery, equipment and vehicles	404,451	461,394
Accumulated depreciation	(337,065)	(351,875)
Machinery, equipment and vehicles, net	67,386	109,519
Tools, furniture and fixtures	65,312	74,041
Accumulated depreciation	(54,844)	(59,111)
Tools, furniture and fixtures, net	10,468	14,930
Land	* <sup>3</sup> 51,362	* <sup>3</sup> 64,219
Construction in progress	11,977	15,978
Total property, plant and equipment	228,078	307,684
Intangible assets		
Goodwill	819	20,182
Software	2,963	4,002
Customer-related assets	2,853	3,107
Other	4,877	25,022
Total intangible assets	11,512	52,313
Investments and other assets		
Investment securities	* <sup>2</sup> 57,201	* <sup>2</sup> 59,289
Deferred tax assets	32,407	17,320
Net defined benefit asset	63,784	69,715
Other	* <sup>2</sup> 25,705	* <sup>2, 3</sup> 23,201
Allowance for doubtful accounts	(734)	(156)
Total investments and other assets	178,363	169,370
Total non-current assets	417,953	529,367
Total assets	817,950	1,071,481

(Millions of yen)

	Previous fiscal year as of December 31, 2020	Current fiscal year as of December 31, 2021
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	95,263	145,816
Short-term loans payable	10,275	10,437
Current portion of long-term loans payable	* <sup>3</sup> 27,096	* <sup>3</sup> 37,131
Current portion of bonds payable	—	20,000
Lease obligations	1,061	1,092
Income taxes payable	4,985	5,640
Provision for bonuses	5,480	6,125
Other	53,022	79,334
Total current liabilities	197,181	305,575
Non-current liabilities		
Bonds payable	100,000	140,000
Long-term loans payable	* <sup>3</sup> 123,766	* <sup>3</sup> 171,443
Lease obligations	4,543	4,112
Deferred tax liabilities	12,525	10,725
Net defined benefit liability	17,071	35,989
Asset retirement obligations	1,691	7,689
Other	9,809	14,940
Total non-current liabilities	269,405	384,897
Total liabilities	466,586	690,473
Net assets		
Shareholders' equity		
Capital stock	96,557	96,557
Capital surplus	94,468	94,468
Retained earnings	219,778	214,665
Treasury shares	(1,800)	(1,780)
Total shareholders' equity	409,003	403,910
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,903	5,449
Deferred gains or losses on hedges	2,468	92
Foreign currency translation adjustment	(82,321)	(55,456)
Remeasurements of defined benefit plans	(13,562)	(8,067)
Total accumulated other comprehensive income	(90,511)	(57,983)
Non-controlling interests	32,873	35,081
Total net assets	351,364	381,008
Total liabilities and net assets	817,950	1,071,481

② Consolidated Statement of Income and Consolidated Statement of Comprehensive income  
Consolidated Statement of Income

(Millions of yen)

	Previous fiscal year ended December 31, 2020	Current fiscal year ended December 31, 2021
Net sales	701,223	855,379
Cost of sales	544,430	678,061
Gross profit	156,793	177,318
Selling, general and administrative expenses		
Freightage and packing expenses	12,914	15,870
Employees' salaries and allowances	42,776	48,950
Provision of allowance for doubtful accounts	866	287
Provision for bonuses	2,242	2,431
Retirement benefit expenses	(257)	(552)
Research and development costs	*1 12,029	*1 13,503
Other	46,560	53,935
Total selling, general and administrative expenses	117,130	134,425
Operating income	39,663	42,893
Non-operating income		
Interest income	1,263	1,223
Dividends income	416	401
Foreign exchange gains	—	250
Equity in earnings of affiliates	771	2,943
Other	2,066	2,017
Total non-operating income	4,516	6,835
Non-operating expenses		
Interest expenses	2,225	2,176
Foreign exchange losses	1,384	—
Other	4,117	3,794
Total non-operating expenses	7,726	5,970
Ordinary income	36,452	43,758
Extraordinary income		
Gain on sales of subsidiaries' and affiliates' securities	—	769
Gain on sales of non-current assets	*2 5,226	*2 482
Gain on bargain purchase	1,295	—
Insurance income	531	—
Total extraordinary income	7,052	1,251
Extraordinary loss		
Acquisition-related expenses	4,563	6,911
Loss on disposal of non-current assets	*4 2,903	*4 3,139
Impairment losses	*3 1,251	*3 1,563
Severance costs	*5 924	*5 522
Loss on disaster	—	463
Provision for environmental measures	—	300
Loss on business liquidation	*6 8,762	—
Total extraordinary loss	18,403	12,897
Income before income taxes and non-controlling interests	25,102	32,112
Income taxes-current	10,336	13,609
Income taxes-deferred	(1,651)	12,041
Total income taxes	8,685	25,650
Net income	16,417	6,462
Net income attributable to non-controlling interests	3,184	2,097
Net income attributable to owners of the parent	13,233	4,365

## Consolidated Statement of Comprehensive Income

(Millions of yen)

	Previous fiscal year ended December 31, 2020	Current fiscal year ended December 31, 2021
Net income	16,417	6,462
Other comprehensive income		
Valuation difference on available-for-sale securities	1,175	2,549
Deferred gains or losses on hedges	1,785	(2,376)
Foreign currency translation adjustment	(9,827)	27,010
Remeasurements of defined benefit plans, net of tax	10,689	5,616
Share of other comprehensive income of associates accounted for using equity method	158	1,334
Total other comprehensive income	*1 3,980	*1 34,134
Comprehensive income	20,396	40,596
Comprehensive income attributable to owners of the parent	17,368	36,894
Comprehensive income attributable to non-controlling interests	3,028	3,702

③ Consolidated Statement of Changes in Net Assets

Previous fiscal year ended December 31, 2020

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at January 1, 2020	96,557	94,456	218,209	(1,823)	407,398
Change in FY2020					
Dividends from surplus			(8,531)		(8,531)
Net income attributable to owners of the parent			13,233		13,233
Purchase of treasury shares				(5)	(5)
Disposal of treasury shares				28	28
Change of scope of equity method			(3,133)		(3,133)
Change in ownership interest of parent due to transactions with non-controlling interests		12			12
Net changes of items other than Shareholders' equity					
Total change in FY2020	—	12	1,569	23	1,605
Balance at December 31, 2020	96,557	94,468	219,778	(1,800)	409,003

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at January 1, 2020	1,676	683	(72,671)	(24,346)	(94,658)	30,757	343,497
Change in FY2020							
Dividends from surplus							(8,531)
Net income attributable to owners of the parent							13,233
Purchase of treasury shares							(5)
Disposal of treasury shares							28
Change of scope of equity method							(3,133)
Change in ownership interest of parent due to transactions with non-controlling interests							12
Net changes of items other than Shareholders' equity	1,227	1,785	(9,650)	10,784	4,147	2,116	6,262
Total change in FY2020	1,227	1,785	(9,650)	10,784	4,147	2,116	7,868
Balance at December 31, 2020	2,903	2,468	(82,321)	(13,562)	(90,511)	32,873	351,364

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at January 1, 2021	96,557	94,468	219,778	(1,800)	409,003
Change in FY2021					
Dividends from surplus			(9,479)		(9,479)
Net income attributable to owners of the parent			4,365		4,365
Purchase of treasury shares				(9)	(9)
Disposal of treasury shares				29	29
Net changes of items other than Shareholders' equity					
Total change in FY2021	—	—	(5,114)	20	(5,094)
Balance at December 31, 2021	96,557	94,468	214,665	(1,780)	403,910

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at January 1, 2021	2,903	2,468	(82,321)	(13,562)	(90,511)	32,873	351,364
Change in FY2021							
Dividends from surplus							(9,479)
Net income attributable to owners of the parent							4,365
Purchase of treasury shares							(9)
Disposal of treasury shares							29
Net changes of items other than Shareholders' equity	2,546	(2,377)	26,865	5,494	32,528	2,208	34,736
Total change in FY2021	2,546	(2,377)	26,865	5,494	32,528	2,208	29,643
Balance at December 31, 2021	5,449	92	(55,456)	(8,067)	(57,983)	35,081	381,008

## ④ Consolidated Statement of Cash Flows

(Millions of yen)

	Previous fiscal year ended December 31, 2020	Current fiscal year ended December 31, 2021
Net cash provided by (used in) operating activities		
Income before income taxes and non-controlling interests	25,102	32,112
Depreciation and amortization	32,581	37,394
Amortization of goodwill	143	656
Gain on bargain purchase	(1,295)	—
Increase (decrease) in allowance for doubtful accounts	(548)	(1,386)
Increase (decrease) in provision for bonuses	(124)	632
Interest and dividends income	(1,679)	(1,624)
Equity in (earnings) losses of affiliates	(771)	(2,943)
Interest expenses	2,225	2,176
Loss (gain) on sales and retirement of non-current assets	(2,324)	2,657
Impairment losses	1,251	1,563
Loss on business liquidation	8,762	—
Loss (gain) on sales of subsidiaries' and affiliates' securities	—	(769)
Decrease (increase) in notes and accounts receivable-trade	10,781	(15,963)
Decrease (increase) in inventories	10,158	(34,348)
Increase (decrease) in notes and accounts payable-trade	(12,453)	34,261
Other, net	(10,847)	2,676
Subtotal	60,963	57,093
Interest and dividends income received	3,249	3,358
Interest expenses paid	(2,385)	(1,963)
Income taxes paid	(7,366)	(13,676)
Net cash provided by (used in) operating activities	54,462	44,812
Net cash provided by (used in) investing activities		
Payments into time deposits	(8,024)	(402)
Proceeds from withdrawal of time deposits	4,589	3,433
Purchase of property, plant and equipment	(32,719)	(35,935)
Proceeds from sales of property, plant and equipment	5,895	909
Purchase of intangible assets	(1,280)	(2,706)
Purchase of shares and investments in capital of subsidiaries resulting in changes in the scope of consolidation	(2,817)	*2 (124,095)
Proceeds from sales of shares and investments in capital of subsidiaries resulting in change in scope of consolidation	890	—
Payments for sales of shares and investments in capital of subsidiaries resulting in change in scope of consolidation	(16)	—
Proceeds from sales of subsidiaries' and affiliates' securities	226	11,618
Purchase of investment securities	(51)	(142)
Proceeds from sales and redemption of investment securities	352	1,589
Proceeds from sales of businesses	—	95
Payments for transfer of business	(78)	—
Other, net	(3)	(1,975)
Net cash provided by (used in) investing activities	(33,037)	(147,612)

	Previous fiscal year ended December 31, 2020	Current fiscal year ended December 31, 2021
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(8,866)	(650)
Proceeds from long-term loans payable	42,105	89,070
Repayment of long-term loans payable	(35,325)	(36,277)
Proceeds from issuance of bonds	20,000	60,000
Cash dividends paid	(8,531)	(9,479)
Cash dividends paid to non-controlling interests	(782)	(1,475)
Net decrease (increase) in treasury shares	23	20
Purchase of shares and investments in capital of subsidiaries not resulting in change in scope of consolidation	(114)	—
Other, net	(2,173)	(1,660)
Net cash provided by (used in) financing activities	6,338	99,549
Effect of exchange rate change on cash and cash equivalents	(3,100)	(531)
Net increase (decrease) in cash and cash equivalents	24,663	(3,782)
Cash and cash equivalents at beginning of the period	16,690	41,354
Cash and cash equivalents at end of the period	*1 41,354	*1 37,572

[Notes]

(Basis of Preparation of Consolidated Financial Statements)

1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 168

The names of major consolidated subsidiaries are omitted because they are stated in “1. Overview of Companies 4. Subsidiaries and affiliates.”

Colors & Effects USA LLC and 19 other companies were included in the scope of consolidation due to acquisition, etc.

DIC Imaging Products USA LLC and three other companies were excluded from the scope of consolidation due to liquidation, etc.

(2) Names of major non-consolidated subsidiaries

Not applicable

2. Scope of the equity method

(1) Number of affiliates accounted for using the equity method: 20

Principal company: TAIYO HOLDINGS CO. LTD.

CIMO Compagnie Industrielle de Monthey S.A. was included in the scope of affiliates accounted for using the equity method due to acquisition.

KANGNAM CHEMICAL CO., LTD. was excluded from the scope of the equity method due to refund with capital reduction.

(2) Non-consolidated subsidiaries not accounted for using the equity method

Not applicable

3. Accounting period of consolidated subsidiaries

The closing date of the consolidated subsidiaries is the same as the consolidated closing date.

4. Accounting Policies

(1) Methods and Standards for Valuation of Significant Assets

(a) Securities

Available-for-sale securities are carried at fair value as of the balance sheet date, with unrealized gain and loss, net of applicable taxes, reported in a separate component of net assets. The cost of securities sold is calculated by the moving-average method.

Available-for-sale securities whose fair value is not readily available are carried at cost calculated by the moving-average method.

(b.) Derivatives

Derivatives are carried at fair value.

(c) Inventories

Inventories are principally stated at cost, determined by the first-in, first-out method, which evaluates the amount of the inventories shown in the balance sheet by writing them down, based on their decrease in profitability.

(2) Method for Depreciation of Non-Current Assets

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

The Company and its consolidated domestic subsidiaries:

Depreciation of buildings (other than facilities attached to buildings) is calculated principally by the straight-line method.

Depreciation of facilities attached to buildings and structures acquired on or after April 1, 2016, is also calculated by the straight-line method. Depreciation of other property, plant and equipment is calculated by the declining-balance method.

Consolidated foreign subsidiaries:

Depreciation of property, plant and equipment is calculated principally by the straight-line method.

The principal useful lives are as follows:

Buildings and structures	8 to 50 years
Machinery, equipment and vehicles	3 to 11 years

(b) Intangible assets (excluding leased assets)

Intangible assets are amortized by the straight-line method.

(c) Leased assets

Leased assets related to finance leases that do not transfer ownership of the leased property to the lessee are depreciated on a straight-line basis, with the lease periods used as their useful lives and no residual value.

(d) Right-of-use assets

Right-of-use assets are depreciated using straight-line method with no residual value from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

(3) Standards for Provisions

(a) Allowance for doubtful accounts

Allowance for doubtful accounts is provided mainly based on historical experience for normal receivables and on an estimate of collectability of receivables from companies in financial difficulty.

(b) Provision for bonuses

Provision for bonuses is provided based on the estimated payments of bonuses to employees and executive officers by the Company and its consolidated domestic subsidiaries.

(4) Retirement and Pension Plans

Net defined benefit asset/liability is recognized for employees' and executive officers' retirement benefits. Pension assets are deducted from retirement benefit obligations and the net amount is recognized based on the estimated amount of payment as of the balance sheet date. In calculating retirement benefit obligations, the Company applies a method of attributing expected retirement benefits to each period on a benefit formula basis.

The Company and its consolidated domestic subsidiaries amortize actuarial gains and losses in the succeeding years primarily by the straight-line method over the stated years that do not exceed the average remaining service period of the eligible employees (13 years). Past service costs are amortized in the accounting periods when they accrue.

Consolidated foreign subsidiaries amortize actuarial gains and losses in the succeeding years primarily by the straight-line method over the stated years that do not exceed the average remaining service period of the eligible employees (6-26 years). Past service costs are amortized over 9-25 years.

Unrecognized actuarial gains and losses and unrecognized past service costs are recorded in "Remeasurements of defined benefit plans" in net assets after adjusting income tax effect.

(5) Foreign Currency Translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates as of the balance sheet date and any difference arising from the translation is recognized in the consolidated statement of income.

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the exchange rates as of the balance sheet date. Revenue and expense accounts are translated at the average rate of exchange in effect during the year. Foreign currency translation adjustments are presented as a separate component of net assets.

(6) Principal Methods of Hedge Accounting

(a) Method for Hedge Accounting

Hedge accounting, under which unrealized gain or loss is deferred, is adopted for derivatives that qualify as hedges. The receivables and payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting. If interest rate swaps qualify for hedge accounting and meet certain specific matching criteria, they will not be measured at market value, rather the differential paid or received under the swap agreements will be recognized in interest expense or income.

(b) Hedging instruments and hedged items

Hedging instrument

Derivative transactions (forward exchange contracts, interest rate and currency swap contracts, and commodity swap contracts) and loans denominated in foreign currencies.

Hedged item

Any monetary receivables and payables denominated in foreign currencies, forecast transactions denominated in foreign currencies, loans payable, fuels, and net investments in foreign operations.

(c) Hedging policy

Foreign exchange contracts and currency swap transactions are utilized to avoid risks arising from fluctuations in foreign currency exchange rates related to monetary receivables and payables denominated in foreign currencies or forecast transactions denominated in foreign currencies.

Interest rate swap contracts are utilized to avoid future risks of interest rate fluctuations or to reduce interest rate burdens.

Commodity swaps are utilized to hedge fluctuations in fuel prices.

Loans payable denominated in foreign currencies and foreign exchange contracts are utilized to avoid risks arising from fluctuations in foreign currency exchange rates of net investments in foreign operations.

All derivative transactions of the Company are executed in accordance with internal management regulations. Consolidated subsidiaries execute their own transactions in accordance with their respective management regulations.

(d) Method of assessment of hedge effectiveness

The effectiveness is assessed by confirming a high correlation between the market fluctuations or the cash flow fluctuations for a hedged item and the market fluctuations or the cash flow fluctuations for a hedging instrument.

(7) Amortization of Goodwill

Goodwill is amortized by the straight-line method over within 20 years.

(8) Scope of Cash and Cash Equivalents in Consolidated Statements of Cash Flows

Cash and cash equivalents consist primarily of cash on hand, certificates of deposit and short-term investments with original maturities of three months or less that are readily convertible to known amounts of cash and have insignificant risk of changes in value.

(9) Significant Matters for Preparation of Consolidated Financial Statements

(a) Consumption taxes

Consumption taxes are excluded from each transaction amount and accounted for separately.

(b) Consolidated taxation system

The Company and some of its subsidiaries have adopted the consolidated taxation system, with the Company registered as the consolidated taxation parent company.

(c) Tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

Concerning items which transitioned to the group tax sharing system and those for which the nonconsolidated tax payment system were reviewed in line with the transition to the group tax sharing system, which was established under the “Act for Partial Amendment of the Income Tax Act” (Act No. 8 of 2020), the Company and some of its consolidated domestic subsidiaries have not applied the provisions stipulated in paragraph 44 of the “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018) in accordance with the treatment set out paragraph 3 of the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (PITF No .39, March 31, 2020). Instead, they have applied the provisions of the tax regime before the revision to calculate the amounts of deferred tax assets and deferred tax liabilities.

(Accounting Estimates)

1. Purchase Price Allocation of the Colors & Effects Business of BASF SE

(1) Amount recorded in the consolidated financial statements for the fiscal year ended December 31, 2021

Property, plant and equipment	¥69,024 million
Intangible assets	21,008 million
Goodwill	19,598 million

(2) Information on significant accounting estimates for the identified items

(a) Method of calculating the amounts recognized in the consolidated financial statements for the fiscal year ended December 31, 2021

As the purchase price accounting for the acquisition has not been finalized as of December 31, 2021, the assets acquired and liabilities assumed were recognized by preliminary amounts based on the information available at the time.

Primary assets and each amount recorded on consolidated financial statements are as follows.

Primary assets		Amount recorded on consolidated financial statements
Property, plant and equipment	Buildings and structures	¥16,803 million
	Machinery, equipment and vehicles	38,556 million
	Land	9,402 million
Intangible assets	Technologies and related assets	8,922 million
	Contracts and related assets	5,632 million
	Trademarks and trade names	3,354 million

In the process of the purchase price allocation, the fair value of property, plant and equipment, as well as intangible assets are calculated by cost approach, income approach such as relief from royalty method, market approach and other methods. Goodwill is calculated by subtracting identifiable assets accepted and liabilities assumed from the acquisition cost.

(b) Significant assumptions used in calculating the amounts recognized in the consolidated financial statements for the fiscal year ended December 31, 2021

In estimating the fair value of property, plant and equipment as of the acquisition date, market value, replacement cost, estimated future cash flows generated by the target assets and discount rates are used as significant assumptions.

In estimating the fair value of intangible assets as of the acquisition date, market value, royalty rates, estimated future cash flows generated by the target assets and discount rates are used as significant assumptions.

(c) Impact on the consolidated financial statements for the fiscal year ending December 31, 2022

Although the fair values are determined based on management’s best estimates, they may be affected by changes in uncertain future economic conditions. There is a risk that this could cause a significant impact on the valuation of property, plant and equipment, and intangible assets.

In addition, for valuation of reporting unit with goodwill, a rapid worsening of economic or business conditions could have a significant impact on the consolidated financial statements for the following fiscal year.



(Accounting Standards, etc. Not Yet Applied)

1. The Company and its domestic consolidated subsidiaries

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020, Accounting Standards Board of Japan)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 26, 2021, Accounting Standards Board of Japan)
- “Implementation Guidance on Disclosure of Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020, Accounting Standards Board of Japan)

(1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States jointly developed comprehensive accounting standards for revenue recognition, and in May 2014 published “Revenue from Contracts with Customers” (IFRS 15 at IASB, Topic 606 at FASB). Given that IFRS 15 will be applied to fiscal years with dates on or after January 1, 2018 and Topic 606 will be applied to fiscal years with dates after December 15, 2017, the Accounting Standards Board of Japan (ASBJ) has developed comprehensive accounting standards for revenue recognition and published them along with the implementation guidance.

The basic policy of the ASBJ in developing accounting standards for revenue recognition is thought to be setting accounting standards, with the incorporation of the basic principles of IFRS 15 as a starting point, from a standpoint of comparability between financial statements, which is one of the benefits of ensuring consistency with IFRS 15, and to add alternative accounting treatments without losing comparability if there is an item that should be taken into account in practices, etc. that have been conducted in Japan.

(2) Planned date of application

It will be applied from the beginning of the fiscal year ending December 31, 2022.

(3) Effect of application of the accounting standards, etc.

Application of these accounting standards, etc. will have a negligible impact on the consolidated financial statements.

- “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019, Accounting Standards Board of Japan)
- “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 4, 2019, Accounting Standards Board of Japan)
- “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019, Accounting Standards Board of Japan)
- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021, Accounting Standards Board of Japan)
- “Implementation Guidance on Disclosure of Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020, Accounting Standards Board of Japan)

(1) Overview

In light of virtually identical and detailed guidance issued by IASB and FASB, specifically “Fair Value Measurement” (IFRS 13) under international financial reporting standards and Accounting Standards Codification – “Fair Value Measurement” (Topic 820) under U.S. accounting standards, ASBJ has taken steps to bringing Japan standards in conformity with international accounting standards, particularly with respect to guidance and disclosure regarding the fair value of financial instruments. This decision resulted in announcement of the Accounting Standard for Fair Value Measurement.

As a basic policy in development of the accounting standard regarding measurement of fair value, ASBJ opted essentially to adopt IFRS 13 in its entirety, with a view to improving the comparability of financial statements between Japanese and foreign companies by utilizing a unified measurement approach. Additionally, in consideration of actual practice in Japan to date, ASBJ has defined other procedures with respect to individual item categories within a scope that will not significantly harm comparability between the financial statements.

(2) Planned date of application

It will be applied from the beginning of the fiscal year ending December 31, 2022.

(3) Effect of application of the accounting standards, etc.

The effect of the application of these accounting standards, etc. on the consolidated financial statements is currently under evaluation.

- “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (ASBJ PITF No. 42, August 12, 2021, Accounting Standards Board of Japan)

(1) Overview

In light of the Act No. 8 of 2020 enacted on March 27, 2020, which stipulates that the consolidated taxation system will be revised and shifted to the group tax sharing system, the practical solution was released by ASBJ for the purpose of clarifying the accounting treatment and disclosure procedures for corporate tax, local corporate tax and tax effect accounting after the group tax sharing system is applied.

(2) Planned date of application

It will be applied from the beginning of the fiscal year ending December 31, 2023.

(3) Effect of application of the accounting standards, etc.

The effect of the application of this accounting standards, etc. on the consolidated financial statements is currently under evaluation.

2. Overseas consolidated subsidiaries

- Topic 842 “Leases”

(1) Overview

This accounting standard, etc. requires lessees to record all lease as assets and liabilities in the balance sheet in principle. There are no significant changes to the lessor’s accounting treatment.

(2) Expected date of application

It will be applied from the beginning of the fiscal year ending December 31, 2022.

(3) Effect of application of such accounting standards, etc.

The effect of the application of these accounting standards, etc. on the consolidated financial statements is currently under evaluation.

(Changes in Presentation)

(Application of “Accounting Standard for Disclosure of Accounting Estimates”)

The Company has adopted the “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31 issued on March 31, 2020) in the consolidated financial statements from the end of the fiscal year ended December 31, 2021, and has included notes on accounting estimates therein.

However, these notes do not describe the information for the fiscal year ended December 31, 2020, in accordance with the transitional treatment prescribed in the proviso of Paragraph 11 of the accounting standard.

(Additional Information)

Board Benefit Trust (BBT)

With regard to the compensation for executive officers, as well as directors who concurrently serve as executive officers (the “Target Officers”), the Company introduced a new performance-based stock compensation plan called Board Benefit Trust (BBT) (the “Plan”) from the fiscal year ended December 31, 2017. The purpose of the Plan is to further clarify the linkage between the compensation of the Target Officers, and corporate performance and value of the Company’s shares. The intended result is strengthening the Executive Officers’ awareness of the importance of contributing to the medium- to long-term improvement of operating results, as well as to the enhancement of corporate value, and of sharing the same objectives as shareholders.

Accounting treatment related to the trust agreement is in accordance with “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (PITF No. 30, March 26, 2015).

(1) Outline of the transactions

The trust established under the Plan acquires the Company’s shares by cash contributed by the Company. The trust provides shares of the Company and the cash equivalent to the market price of the shares of the Company (the “Company’s Shares and Cash Benefits”) to the Target Officers, in accordance with the Rules of Officer Share Benefit established by the Company. The Target Officers shall in principle receive the Company’s Shares and Cash Benefits upon their retirement.

(2) The Company’s shares remaining in the trust

The shares remaining in the trust are recorded under net assets as treasury shares at the book value in the trust (excluding incidental costs). The book value and number of such treasury shares are ¥549 million and 139 thousand as of December 31, 2020, respectively, and ¥520 million and 132 thousand as of December 31, 2021, respectively.

Accounting estimates associated with the spread of COVID-19

Although the impact of the spread of COVID-19 varies by region and business, the Company has made accounting estimates such as impairment of non-current assets and recoverability of deferred tax assets based on the assumption that economic conditions will gradually recover in fiscal year 2022 and has assumed that an impact on the estimates would not be significant as of December 31, 2021.

However, due to uncertainties in the application of such assumption to the estimates above, unexpected changes in the recovery time for COVID-19 or its impact on the economic environment may affect the financial position, operating results, and cash flows of the Company in the future.

## (Consolidated Balance Sheet)

## \*1. Notes and accounts receivable-trade transferred due to securitization of receivables

Previous fiscal year as of December 31, 2020	Current fiscal year as of December 31, 2021
¥6,704 million	¥9,208 million

## \*2. Affiliates' securities

	Previous fiscal year as of December 31, 2020	Current fiscal year as of December 31, 2021
Common stock	¥40,756 million	¥40,675 million
Investments in capital	678	821

## \*3. Assets pledged for collateral and secured liabilities

The following assets are pledged as collateral:

	Previous fiscal year as of December 31, 2020	Current fiscal year as of December 31, 2021
Cash and deposits	¥14 million	¥16 million
Notes and accounts receivable-trade	2,597	3,572
Inventory	1,447	2,337
Buildings and structures	907	1,009
Land	2,200	2,488
Other non-current assets	—	2
Total	7,166	9,424

The obligations collateralized by the above assets are as follows:

	Previous fiscal year as of December 31, 2020	Current fiscal year as of December 31, 2021
Current portion of long-term loans payable	¥75 million	¥83 million
Long-term loans payable	620	621
Total	695	704

## 4 Guarantees obligations for debt of others implemented for affiliated companies and others are as follows:

Previous fiscal year as of December 31, 2020

Guarantee Name	Amounts (Millions of yen)	Details
CAST FILM JAPAN Co., LTD.	525	Guarantee obligations associated with borrowings from financial institutions
Employees (Housing funds)	35	Guarantee obligations associated with borrowings from financial institutions
Total	560	

Current fiscal year as of December 31, 2021

Guarantee Name	Amounts (Millions of yen)	Details
CAST FILM JAPAN Co., LTD.	675	Guarantee obligations associated with borrowings from financial institutions
Employees (Housing funds)	22	Guarantee obligations associated with borrowings from financial institutions
Total	697	

## 5. Notes receivable-trade discounted

	Previous fiscal year as of December 31, 2020	Current fiscal year as of December 31, 2021
Notes receivable-trade discounted	—	¥15 million

(Consolidated Statement of Income)

\*1 Total research and development costs

Previous fiscal year ended December 31, 2020

Current fiscal year ended December 31, 2021

¥12,029 million

¥13,503 million

\*2 Gain on sales of non-current assets

Previous fiscal year ended December 31, 2020

This gain is mainly composed of ¥5,205 million of gain on sale of land and others.

Current fiscal year ended December 31, 2021

This gain is mainly composed of ¥446 million of gain on sale of land, building, machinery and equipment and others.

\*3 Impairment loss

Previous fiscal year ended December 31, 2020

The Group recorded impairment loss in the following asset groups:

Use	Type of assets	Location	Amount (Millions of yen)
Plant assets	Machinery, equipment and vehicles, and others	Australia	478
Idle assets	Buildings and structures, machinery, equipment and vehicles, and others	Ina-machi, Kitaadachi-gun, Saitama	383
Plant assets	Machinery, equipment and vehicles, and others	Singapore	379
Idle assets, etc.	Buildings and structures, machinery, equipment and vehicles, and others	Others	12
Total			1,251

(Reasons for recognition of impairment loss)

As for plant assets, the book value of asset groups which was lower than the recoverable amounts was reduced to the recoverable amounts.

As for idle assets, the book value was reduced to the recoverable amounts because the assets were idle due to ceasing production, etc.

(Amounts of impairment loss and breakdown of the amounts by type of primary non-current assets)

Type of assets	Amount (Millions of yen)
Buildings and structures	398
Machinery, equipment and vehicles	812
Other	42
Total	1,251

(Method of grouping assets)

Assets are grouped on a company-by-company basis, on a product group basis or others.

(Method for measuring recoverable amounts)

The recoverable amounts of plant assets of overseas consolidated subsidiaries were measured by value in use. The value in use was calculated by discounting the estimated future cash flows by 10.0% to 10.5%.

The recoverable amounts of idle assets were measured by value in use and was calculated as not having any value in use because any cash flows in future were not expected.

Current fiscal year ended December 31, 2021

The Group recorded impairment loss in the following asset groups:

Use	Type of assets	Location	Amount (Millions of yen)
Plant assets	Construction in progress, buildings and structures and machinery, equipment and vehicles	U.S.A	726
Idle assets	Machinery, equipment and vehicles, and others	PRC	316
Plant assets	Buildings and structures, machinery, equipment and vehicles, and others	Ina-machi, Kitaadachi-gun, Saitama	257
Idle assets	Buildings and structures, land, machinery, equipment and vehicles, and others	Hirata-mura, Ishikawa-gun, Fukushima	248
Idle assets	Machinery, equipment and vehicles	India	16
Total			1,563

(Reasons for recognition of impairment loss)

As for plant assets, the book value of asset groups which was lower than the recoverable amounts was reduced to the recoverable amounts.

As for idle assets, the book value was reduced to the recoverable amounts because the assets were idle due to ceasing production, etc.

(Amounts of impairment loss and breakdown of the amounts by type of primary non-current assets)

Type of assets	Amount (Millions of yen)
Land	54
Buildings and structures	514
Machinery, equipment and vehicles	562
Construction in progress	374
Other	58
Total	1,563

(Method of grouping assets)

Assets are grouped on a company-by-company basis, on a product group basis or others.

(Method of measuring recoverable amounts)

The recoverable amounts of plant assets of overseas consolidated subsidiary were measured by value in net sale.

The recoverable amounts of domestic plants assets, which were measured by value in use, were calculated as zero because any cash flows in future were not expected.

The recoverable amounts of idle assets were measured by value in net sale for land and value in use for assets other than land. The assets measured by value in use were calculated as zero because any cash flows in future were not expected.

\*4 Loss on disposal of non-current assets

Previous fiscal year ended December 31, 2020

This loss is composed of ¥929 million of buildings, ¥458 million of machinery and equipment, ¥1,083 million of removal cost and others.

Current fiscal year ended December 31, 2021

This loss is composed of ¥1,270 million of buildings, ¥243 million of machinery and equipment, ¥685 million of removal cost and others.

\*5 Severance costs is mainly associated with reorganization of printing ink business overseas.

\*6 As loss on business liquidation, the Company recorded a loss that was expected to result from the disposal of assets to be sold accompanied by decision to sell its high-grade pigment business in the United States. The divestment was a part of the Group's efforts to acquire shares and assets related to pigment business of BASF SE and was conducted as a corrective measure to the problem under the Antimonopoly Law.

## (Consolidated Statement of Comprehensive Income)

## \*1 Reclassification adjustment and tax effects relating to other comprehensive income

	Previous fiscal year ended December 31, 2020	Current fiscal year ended December 31, 2021
Valuation difference on available-for-sale securities:		
Amount arising during the fiscal year	¥1,706 million	¥3,680 million
Reclassification adjustments	(0)	(59)
Before tax effects	1,706	3,621
Tax effects	(531)	(1,072)
Valuation difference on available-for-sale securities	1,175	2,549
Deferred gains or losses on hedges:		
Amount arising during the fiscal year	2,566	2,885
Reclassification adjustments	14	(6,316)
Before tax effects	2,580	(3,431)
Tax effects	(795)	1,055
Deferred gains or losses on hedges	1,785	(2,376)
Foreign currency translation adjustment:		
Amount arising during the fiscal year	(9,827)	26,932
Reclassification adjustments	—	78
Foreign currency translation adjustment	(9,827)	27,010
Remeasurements of defined benefit plans, net of tax:		
Amount arising during the fiscal year	13,504	4,427
Reclassification adjustments	2,005	1,860
Before tax effects	15,510	6,287
Tax effects	(4,821)	(671)
Remeasurements of defined benefit plans, net of tax	10,689	5,616
Share of other comprehensive income of associates accounted for using equity method:		
Amount arising during the fiscal year	159	828
Reclassification adjustments	(1)	506
Share of other comprehensive income of associates accounted for using equity method	158	1,334
Total other comprehensive income	3,980	34,134

## (Consolidated Statement of Changes in Net Assets)

Previous fiscal year ended December 31, 2020

## 1. Type and number of issued shares and treasury shares

	Number of shares at the beginning of the year (Share)	Increase in shares during the year (Share)	Decrease in shares during the year (Share)	Number of shares at the end of the year (Share)
Issued shares				
Common stock	95,156,904	—	—	95,156,904
Total	95,156,904	—	—	95,156,904
Treasury shares				
Common stock (Notes 1, 2 and 3)	511,622	1,900	7,200	506,322
Total	511,622	1,900	7,200	506,322

(Note) 1. The treasury shares at the end of the fiscal year includes 139,000 of the Company shares held by the Board Benefit Trust (BBT).

2. 1,900 increase in treasury shares of common stock resulted from the purchase of fractional shares.

3. 7,200 decrease in treasury shares of common stock was due to benefits of the Company shares by the Board Benefit Trust (BBT).

## 2. Dividends

## (1) Dividends paid

Resolution	Type of shares	Total dividends to be paid (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on March 26, 2020	Common stock	3,792	40	December 31, 2019	March 27, 2020
Board of Directors held on August 11, 2020	Common stock	4,740	50	June 30, 2020	September 1, 2020

(Note) 1. “Total dividends to be paid” resolved by the Ordinary General Meeting of Shareholders held on March 26, 2020 includes dividends of ¥6 million for the Company shares held by the Board Benefit Trust (BBT).

2. “Total dividends to be paid” resolved by the Board of Directors held on August 11, 2020 includes dividends of ¥7 million for the Company shares held by the Board Benefit Trust (BBT).

## (2) Dividends for which the record date came during the fiscal year ended December 31, 2020, but for which the effective date will come after said period

Resolution	Type of shares	Source of dividends	Total dividends to be paid (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on March 30, 2021	Common stock	Retained earnings	4,739	50	December 31, 2020	March 31, 2021

(Note) “Total dividends to be paid” resolved by the Ordinary General Meeting of Shareholders on March 30, 2021 includes dividends of 7 million for the Company shares held by the Board Benefit Trust (BBT).

Current fiscal year ended December 31, 2021

1. Type and number of issued shares and treasury shares

	Number of shares at the beginning of the year (Share)	Increase in shares during the year (Share)	Decrease in shares during the year (Share)	Number of shares at the end of the year (Share)
Issued shares				
Common stock	95,156,904	—	—	95,156,904
Total	95,156,904	—	—	95,156,904
Treasury shares				
Common stock (Notes 1, 2 and 3)	506,322	2,928	7,300	501,950
Total	506,322	2,928	7,300	501,950

(Note) 1. The treasury shares at the end of the fiscal year includes 131,700 of the Company shares held by the Board Benefit Trust (BBT).

2. 2,928 increase in treasury shares of common stock resulted from the purchase of fractional shares.

3. 7,300 decrease in treasury shares of common stock was due to benefits of the Company share by the Board Benefit Trust (BBT).

2. Dividends

(1) Dividends paid

Resolution	Type of shares	Total dividends to be paid (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on March 30, 2021	Common stock	4,739	50	December 31, 2020	March 31, 2021
Board of Directors on August 10, 2021	Common stock	4,739	50	June 30, 2021	September 1, 2021

(Note) 1. “Total dividends to be paid” resolved by the Ordinary General Meeting of Shareholders on March 30, 2021, includes dividends of ¥7 million yen for the Company shares held by the Board Benefit Trust (BBT).

2. “Total dividends to be paid” resolved by the Board of Directors on August 10, 2021 includes dividends of ¥7 million for the Company shares held by the Board Benefit Trust (BBT).

(2) Dividends for which the record date came during the fiscal year ended December 31, 2021, but for which the effective date will come after said period

Resolution	Type of shares	Source of dividends	Total dividends to be paid (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders on March 29, 2022	Common stock	Retained earnings	4,739	50	December 31, 2021	March 30, 2022

(Note) “Total dividends to be paid” resolved by the Ordinary General Meeting of Shareholders on March 29, 2022 includes dividends of 7 million for the Company shares held by the Board Benefit Trust (BBT).

## (Consolidated Statement of Cash Flows)

## \*1 Reconciliation of cash and cash equivalents at end of the period to account items in the consolidated balance sheet

	Previous fiscal year ended December 31, 2020	Current fiscal year ended December 31, 2021
Cash and deposits	¥44,885 million	¥38,253 million
Time deposits with maturities of over three months	(3,531)	(681)
Cash and cash equivalents	41,354	37,572

## \*2 Principal components of assets and liabilities of company newly consolidated as a result of the acquisition of shares and assets in current fiscal year ended December 31, 2021

As a result of the acquisition of shares and assets, Colors & Effects USA LLC and 17 other companies were newly consolidated in current fiscal year ended December 31, 2021. The main components of assets acquired and liabilities assumed at the start of consolidation and the net difference between the cost of acquisition and actual expenditure for each are as follows:

Current assets	¥107,433 million
Non-current assets	105,215
Goodwill	19,598
Current liabilities	(51,112)
Non-current liabilities	(48,827)
Foreign currency translation adjustment	(3,420)
Cost of acquisition	128,887
Components: Acquisition of shares	99,983
Acquisition of assets	28,903
Cash and cash equivalents	(5,110)
Actual expenditure	123,777

## (Lease Transactions)

## 1. Operating lease transactions

## (1) As lessee

Future lease payments related to non-cancelable operating lease transactions

(Millions of yen)

	Previous fiscal year ended December 31, 2020	Current fiscal year ended December 31, 2021
Within a year	1,883	3,696
More than one year	6,105	9,332
Total	7,988	13,028

## (2) As lessor

Future lease payments related to non-cancelable operating lease transactions

(Millions of yen)

	Previous fiscal year ended December 31, 2020	Current fiscal year ended December 31, 2021
Within a year	105	120
More than one year	868	873
Total	973	993

(Financial Instruments)

1. Matters concerning the status of financial instruments

(1) Policy on financial instruments

The Company and its consolidated subsidiaries invest their funds in highly safe financial assets.

We also raise funds by indirect financing through bank loans, direct financing through the issuance of Bonds payable and commercial paper, and the securitization of receivables, by considering market conditions and the balance between long and short term.

Derivative transactions include forward exchange contracts, foreign currency options and currency swaps in the currency segment and interest rate swaps in the interest rate segment. We also engage in commodity swap transactions. Derivative transactions are used to avoid the risks described below, and we do not engage in speculative transactions.

The Company and its consolidated subsidiaries use hedge accounting for derivative transactions that meet their criteria.

(2) Details and risks of financial instruments

Notes and accounts receivable-trade, which is an operating receivable, is exposed to customer credit risk. Some of them are denominated in foreign currencies and are exposed to foreign exchange fluctuation risks.

Investment securities is mainly stocks of companies with which the Company has business relationships and is exposed to market price fluctuation risks.

Notes and accounts payable-trade, which is operating debt, is mostly due within one year. Some of them are denominated in foreign currencies and are exposed to foreign exchange fluctuation risks.

Short-term loans payable mainly procures funds for operating transactions, while long-term loans payable, bonds payable and lease obligations under finance leases primarily seek to procure funds necessary for capital expenditures and investments and loans. Some of these are subject to the risk of interest rate fluctuations because they are floating rates.

In addition, operating liabilities and borrowings are exposed to liquidity risk (risk of not being able to make payments on the due date).

The Group uses foreign exchange forward contracts, foreign currency options and currency swaps to avoid risks arising from fluctuations in foreign currency exchange rates associated with monetary receivables and payables denominated in foreign currencies or forecast transactions denominated in foreign currencies. We also use commodity swaps to hedge fluctuations in fuel prices.

Derivative transactions carry market risk arising from fluctuations in foreign exchange rates and interest rates. In addition, the Company is exposed to the risk of breach of contract. Hedging instruments, hedged items, hedging policies, methods of evaluating the effectiveness of hedging, etc. related to hedge accounting are described in "Significant Hedge Accounting Methods" of "Items Related to Accounting Policies."

### (3) Risk Management System for Financial Instruments

#### ① Management of Credit Risk (Risk Related to Non-performance of Contracts by Business Partners)

The Company conducts its own risk management for trade receivables by combining the balance of receivables with the Company's valuation in accordance with its credit management rules and provides collateral as necessary.

The sales and administrative divisions work together to monitor the status of suppliers and to quickly identify and reduce concerns about recalls due to worsening financial conditions. Consolidated subsidiaries are accounted for in accordance with their management regulations.

The Company and its consolidated subsidiaries enter into derivative contracts with highly creditworthy financial institutions, and therefore recognize that there is little risk of default.

#### ② Management of market risks (fluctuation risks such as exchange rates and interest rates)

The Company uses forward exchange contracts, currency option contracts and currency swaps to avoid risks arising from fluctuations in foreign currency exchange rates associated with monetary receivables and payables denominated in foreign currencies or forecast transactions denominated in foreign currencies. We also use commodity swaps to hedge fluctuations in fuel prices. Foreign currency-denominated borrowings and forward exchange contracts are used to avoid risks arising from fluctuations in the exchange rates of net investments in foreign entities.

For investment securities, the Group periodically assesses the market value and the financial status of the issuers, etc., and continuously reviews the holding status in consideration of the relationship with the business partner.

The Company lays down the Derivative Transactions Management Rules for internal risk management, and all derivative transactions are executed in accordance with these rules. The execution of transactions is principally carried out by the Finance Department. The Accounting Department receives periodic reports from the Finance Department, understands the details of transactions, and monitors risks. The executive officer in charge of finance and accounting regularly reports the status of transactions to the Board of Directors. Consolidated subsidiaries comply with their management regulations. The Company receives regular reports from each company on the details of their transactions.

#### ③ Management of funding liquidity risk (risk of inability to make payments on due dates)

Although operating liabilities and borrowings are exposed to liquidity risk, the Company and its consolidated subsidiaries have minimized the risk by establishing loan facilities in addition to managing the cash flow of each company.

### (4) Supplementary Explanation of Matters Related to the Fair Value of Financial Instruments

① The fair value of financial instruments includes values based on market prices and reasonably calculated values in case of the absence of market prices. Since variable factors are included in the calculation of the price, the price may change if different assumptions are adopted.

② The contract amount, etc., related to derivative transactions in "2. Fair value of financial instruments" does not indicate the market risk involved in derivative transactions.

## 2. Fair value of financial instruments

The amounts reported on the consolidated balance sheet, fair values and the differences between them are as follows.

Those whose fair value is considered to be extremely difficult to ascertain are not included (see (Note 2))

Previous fiscal year as of December 31, 2020

	Consolidated balance sheet amount (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
(1) Cash and deposits	44,885	44,885	—
(2) Notes and accounts receivable-trade	197,595	197,595	—
(3) Investment securities			
Investments in affiliates	22,318	34,322	12,004
Other securities	12,859	12,859	—
<b>Total assets</b>	<b>277,658</b>	<b>289,662</b>	<b>12,004</b>
(1) Notes and accounts payable-trade	95,263	95,263	—
(2) Short-term loans payable	10,275	10,275	—
(3) Current portion of long-term loans payable	27,096	27,096	—
(4) Lease obligations (current liabilities)	1,061	1,061	—
(5) Income taxes payable	4,985	4,985	—
(6) Bonds payable	100,000	100,314	314
(7) Long-term loans payable	123,766	123,918	152
(8) Lease obligations (non-current liabilities)	4,543	4,783	240
<b>Total liabilities</b>	<b>366,989</b>	<b>367,695</b>	<b>706</b>
Derivative transactions (* 1)			
① Transactions to which hedge accounting is not applied	21	21	—
② Transactions to which hedge accounting is applied	3,565	3,565	—
<b>Total derivative transactions</b>	<b>3,586</b>	<b>3,586</b>	<b>—</b>

(\* 1) Net receivables and payables arising from derivative transactions are presented in net amounts, and any items for which the total becomes net obligation is indicated in parentheses.

Current fiscal year as of December 31, 2021

	Consolidated balance sheet amount (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
(1) Cash and deposits	38,253	38,253	—
(2) Notes and accounts receivable-trade	237,916	237,916	—
(3) Investment securities			
Investments in affiliates	23,387	39,096	15,709
Other securities	15,502	15,502	—
Total assets	315,058	330,767	15,709
(1) Notes and accounts payable-trade	145,816	145,816	—
(2) Short-term loans payable	10,437	10,437	—
(3) Current portion of long-term loans payable	37,131	37,120	(11)
(4) Current portion of bonds payable	20,000	20,006	6
(5) Lease obligations (current liabilities)	1,092	1,092	—
(6) Income taxes payable	5,640	5,640	—
(7) Bonds payable	140,000	140,204	204
(8) Long-term loans payable	171,443	171,614	171
(9) Lease obligations (non-current liabilities)	4,112	4,291	179
Total liabilities	535,671	536,220	549
Derivative transactions (* 1)			
① Transactions to which hedge accounting is not applied	(49)	(49)	—
② Transactions to which hedge accounting is applied	19	19	—
Total derivative transactions	(30)	(30)	—

(\* 1) Net receivables and payables arising from derivative transactions are presented in net amounts, and any items for which the total becomes net obligation is indicated in parentheses.

(Note) 1. Method of calculating the fair value of financial instruments and matters related to securities and derivative transactions

Assets

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

Since these are settled in a short period of time, their fair values approximate their book values. Therefore, they are stated at their book values.

(3) Investment securities

As for the fair value of Investment securities, stocks are valued at their market prices. Matters related to securities by holding purpose are described in the notes "Securities."

Liabilities

(1) Notes and accounts payable-trade, (2) Short-term loans payable, (5) Lease obligations (current liabilities), (6) Income taxes payable

Since these are settled in a short period of time, their fair values approximate their book values. Therefore, they are stated at their book values.

(3) Current portion of long-term loans payable, (8) Long-term loans payable

Of long-term loans payable with floating interest rates, those subject to the special treatment of interest rate swaps are calculated by discounting the total amount of principal and interest that is processed together with such interest rate swaps at the interest rate applicable to new similar borrowings. As for the other long-term loans payable with floating interest rates is based on the carrying amount of because it reflects market interest rates in a short period of time and the market value is close to the carrying amount as the Company's credit status has not changed significantly since the drawdown. Long-term loans payable with fixed rate is calculated on the present value of the total amount of principal and interest discounted at an interest rate that would expect to be applicable to new similar borrowings.

(4) Current portion of bonds payable (7) Bonds payable

The market value of bonds payable issued by the Company is based on the market price.

(9) Lease obligations (non-current liabilities)

The present value is calculated on the present value of the total amount of principal and interest discounted at the interest rate assumed in the case of new lease transactions.

Derivative Transactions

As stated in the notes to "Derivatives."

2. Financial instruments whose fair value is deemed extremely difficult to measure

Unlisted stocks and others (the amount recorded on the consolidated balance sheet: 22,023 million yen for the previous consolidated fiscal year and 20,400 million yen for the current consolidated fiscal year) are not included in "(3) Investment securities" because they do not have market prices, their future cash flows cannot be estimated, and their fair values are deemed extremely difficult to measure.

3. Redemption schedule of monetary claims and securities with maturity after the consolidated closing date

Previous fiscal year as of December 31, 2020

	Within 1 year (Millions of yen)	Over 1 year to 5 years (Millions of yen)	Over 5 years to 10 years (Millions of yen)	Over 10 years (Millions of yen)
Notes and accounts receivable-trade	197,595	—	—	—
Total	197,595	—	—	—

Previous fiscal year as of December 31, 2021

	Within 1 year (Millions of yen)	Over 1 year to 5 years (Millions of yen)	Over 5 years to 10 years (Millions of yen)	Over 10 years (Millions of yen)
Notes and accounts receivable-trade	237,916	—	—	—
Total	237,916	—	—	—

4. Repayment schedule of interest-bearing debt of bonds payable, long-term loans payable, and others after the consolidated closing date

Previous fiscal year as of December 31, 2020

	Within 1 year (Millions of yen)	Over 1 year to 5 years (Millions of yen)	Over 5 years to 10 years (Millions of yen)	Over 10 years (Millions of yen)
Short-term loans payable	10,275	—	—	—
Current portion of long-term loans payable	27,096	—	—	—
Lease obligations (current liabilities)	1,061	—	—	—
Bonds payable	—	70,000	25,000	5,000
Long-term loans payable	—	82,415	41,323	28
Lease obligations (non-current liabilities)	—	2,387	1,577	578
Total	38,432	154,802	67,900	5,606

Previous fiscal year as of December 31, 2021

	Within 1 year (Millions of yen)	Over 1 year to 5 years (Millions of yen)	Over 5 years to 10 years (Millions of yen)	Over 10 years (Millions of yen)
Short-term loans payable	10,437	—	—	—
Current portion of long-term loans payable	37,131	—	—	—
Current portion of bonds payable	20,000	—	—	—
Lease obligations (current liabilities)	1,092	—	—	—
Bonds payable	—	75,000	60,000	5,000
Long-term loans payable	—	121,153	50,291	—
Lease obligations (non-current liabilities)	—	2,251	1,192	669
Total	68,660	198,404	111,483	5,669

(Securities)

Previous fiscal year as of December 31, 2020

1. Other securities

	Type of securities	Consolidated carrying value (Millions of yen)	Acquisition price (Millions of yen)	Valuation difference (Millions of yen)
Securities where consolidated carrying value exceeds their acquisition price	Stocks	9,605	4,226	5,379
	Subtotal	9,605	4,226	5,379
Securities where consolidated carrying value does not exceed their acquisition price	Stocks	3,254	4,282	(1,028)
	Subtotal	3,254	4,282	(1,028)
Total		12,859	8,508	4,351

Current fiscal year as of December 31, 2021

1. Other securities

	Type of securities	Consolidated carrying value (Millions of yen)	Acquisition price (Millions of yen)	Valuation difference (Millions of yen)
Securities where consolidated carrying value exceeds their acquisition price	Stocks	12,930	4,620	8,310
	Subtotal	12,930	4,620	8,310
Securities where consolidated carrying value does not exceed their acquisition price	Stocks	2,572	2,973	(401)
	Subtotal	2,572	2,973	(401)
Total		15,502	7,593	7,909

## (Derivatives Transactions)

## 1. Derivative transactions to which hedge accounting is not applied

## (1) Currency related

Previous fiscal year as of December 31, 2020

Classification	Type of transaction	Contract/Notional amount (Millions of yen)	Contract/Notional amount due over 1 year (Millions of yen)	Fair value (Millions of yen)	Net unrealized gains (losses) (Millions of yen)
Off-market transactions	Forward exchange contracts				
	Sell				
	Russian ruble	2,546	—	58	58
	Columbia peso	2,269	—	5	5
	Canadian dollar	1,226	—	1	1
	Other	83	—	(0)	(0)
	Buy				
	U.S. dollar	1,865	—	(44)	(44)
	Other	129	—	1	1
Total		8,119	—	21	21

(Note) Calculation method of fair value

Forward exchange rates are used for forward exchange contracts.

Current fiscal year as of December 31, 2021

Classification	Type of transaction	Contract/Notional amount (Millions of yen)	Contract/Notional amount due over 1 year (Millions of yen)	Fair value (Millions of yen)	Net unrealized gains (losses) (Millions of yen)
Off-market transactions	Forward exchange contracts				
	Sell				
	Columbia peso	1,730	—	27	27
	Canadian dollar	1,322	—	(23)	(23)
	Other	247	—	1	1
	Buy				
	U.S. dollar	4,435	—	(50)	(50)
		Other	318	—	(4)
Total		8,052	—	(49)	(49)

(Note) Calculation method of fair value

Forward exchange rates are used for forward exchange contracts.

2. Derivative transactions to which hedge accounting is applied

(1) Currency related

Previous fiscal year as of December 31, 2020

Method of hedge accounting	Type of transaction	Hedged items	Contract/Notional amount (Millions of yen)	Contract/Notional amount due over 1 year (Millions of yen)	Fair value (Millions of yen)
Principle treatment	Forward exchange contracts				
	Buy				
	Euro	Forecast transactions and accounts payable	62,891	—	3,668
	Other		65	—	(0)
Appropriation treatment	Forward exchange contracts				
	Sell				
	U.S. dollar	Accounts receivable	1,328	—	(Note 2)
Total			64,284	—	3,668

(Note) Calculation method of fair value

1. The fair value of forward exchange contracts is calculated based on prices presented by financial institutions with which the Company has transactions.
2. Foreign currency forward contracts adopted appropriation are accounted for as part of the hedged accounts receivable. The fair value is included in the fair value of the receivables.

Current fiscal year as of December 31, 2021

Method of hedge accounting	Type of transaction	Hedged items	Contract/Notional amount (Millions of yen)	Contract/Notional amount due over 1 year (Millions of yen)	Fair value (Millions of yen)
Principle treatment	Forward exchange contracts				
	Sell				
	Euro	Net investments in foreign entities	26,072	13,061	(18)
	Buy				
	U.S. dollar	Accounts payable	177	—	2
Appropriation treatment	Forward exchange contracts				
	sell				
	U.S. dollar	Accounts receivable	1,565	—	(Note 2)
	Other		362	—	(Note 2)
Total			28,177	13,061	(16)

(Note) Calculation method of fair value

1. The fair value of forward exchange contracts is calculated based on prices presented by financial institutions with which the Company has transactions.
2. Foreign exchange forward contracts are accounted for as part of the hedged accounts receivable, and their fair values are included in the fair values of the accounts receivable.

## (2) Interest Rate Related

Previous fiscal year as of December 31, 2020

Method of hedge accounting	Type of transaction	Hedged items	Contract/Notional amount (Millions of yen)	Contract/Notional amount (Millions of yen)	Fair value (Millions of yen)
Principle treatment	Interest rate swap transaction Floating-rate receipts • Fixed-rate payments	Loans payable	2,579	2,579	(101)
Special treatment of interest rate swaps	Interest rate swap transaction Floating-rate receipts • Fixed-rate payments	Loans payable	65,470	65,470	(Note 2)
Total			68,049	68,049	(101)

(Note) Calculation method of fair value

1. The fair value of interest rate swap transactions is calculated based on the prices offered by the financial institutions with which the Company has transactions.
2. The special treatment of interest rate swaps is accounted for together with the hedged loans payable, and their fair values are included in the fair values of the loans payable.

Current fiscal year as of December 31, 2021

Method of hedge accounting	Type of transaction	Hedged items	Contract/Notional amount (Millions of yen)	Contract/Notional amount (Millions of yen)	Fair value (Millions of yen)
Principle treatment	Interest rate swap transaction Floating-rate receipts • Fixed-rate payments	Loans payable	65,754	65,754	40
Special treatment of interest rate swaps	Interest rate swap transaction Floating-rate receipts • Fixed-rate payments	Loans payable	77,264	50,000	(Note 2)
Total			143,018	115,754	40

(Note) Calculation method of fair value

1. The fair value of interest rate swap transactions is calculated based on the prices offered by the financial institutions with which the Company has transactions.
2. The special treatment of interest rate swaps is accounted for together with the hedged loans payable, and their fair values are included in the fair values of the loans payable.

## (3) Commodity related

Previous fiscal year as of December 31, 2020

Method of hedge accounting	Type of transaction	Hedged items	Contract/Notional amount (Millions of yen)	Contract/Notional amount due over 1 year (Millions of yen)	Fair value (Millions of yen)
Principle treatment	Commodity swap transaction Floating-price receipts • Fixed-price payments	Fuel	89	—	(2)
Total			89	—	(2)

(Note) Calculation method of fair value

The fair value of commodity swap transactions is based on the exchange price.

Current fiscal year as of December 31, 2021

Method of hedge accounting	Type of transaction	Hedged items	Contract/Notional amount (Millions of yen)	Contract/Notional amount due over 1 year (Millions of yen)	Fair value (Millions of yen)
Principle treatment	Commodity swap transaction Floating-price receipts • Fixed-price payments	Fuel	138	—	(5)
Total			138	—	(5)

(Note) Calculation method of fair value

The fair value of commodity swap transactions is based on the exchange price.

(Retirement and Pension Plans)

Fiscal year 2020 (January 1, 2020 - December 31, 2020)

1. Overview of adopted retirement and pension plans

The Company and some of its domestic consolidated subsidiaries have defined benefit pension plans, such as a cash balance-style pension plan and retirement plans, and defined contribution pension plans. Some foreign consolidated subsidiaries maintain defined benefit pension plans and defined contribution pension plans. The Company has established the employee retirement benefit trust.

2. Defined benefit pension plans (including multiemployer plans)

(1) Reconciliation of beginning and ending balances of defined benefit obligations

	Domestic plans * (Millions of yen)	Foreign plans (Millions of yen)
Defined benefit obligations at beginning of year	89,699	150,981
Service cost	2,132	589
Interest cost	708	3,106
Actuarial gains and losses	2,342	11,947
Benefits paid	(4,594)	(6,217)
Past service cost incurred	—	27
Exchange translation differences	—	(4,523)
Other	(50)	295
Retirement benefit obligations at end of year	90,237	156,205

(Note) Some of the domestic consolidated subsidiaries have adopted a simplified method for the calculation of retirement benefits.

(2) Reconciliation of beginning and ending balances of plan assets

	Domestic plans (Millions of yen)	Foreign plans (Millions of yen)
Plan assets at beginning of year	129,969	133,673
Expected return on plan assets	3,286	5,965
Actuarial gains and losses	15,459	12,009
Contributions by the employer	3,519	4,242
Benefits paid	(4,446)	(6,053)
Exchange translation differences	—	(4,450)
Other	—	(18)
Plan assets at end of year	147,788	145,368

(3) Reconciliations of the closing balances of retirement benefit obligations and plan assets, and net amount of liabilities and assets recognized in the consolidated balance sheet

	Domestic plans (Millions of yen)	Foreign plans (Millions of yen)
Funded defined benefit obligations	89,173	154,740
Plan assets	(147,788)	(145,368)
	(58,614)	9,372
Unfunded defined benefit obligations	1,064	1,465
Net amount of liabilities and assets recognized in consolidated balance sheet	(57,550)	10,837
Liabilities (net defined benefit liability)	1,112	15,959
Assets (net defined benefit asset)	(58,662)	(5,122)
Net amount of liabilities and assets recognized in consolidated balance sheet	(57,550)	10,837

(4) Retirement benefit expenses and its breakdowns

	Domestic plans (Millions of yen)	Foreign plans (Millions of yen)
Service cost	2,132	589
Interest cost	708	3,106
Expected return on plan assets	(3,286)	(5,965)
Recognition of actuarial gains and losses	464	1,514
Amortization of past service cost	—	27
Retirement benefit expenses concerning defined benefit plans	18	(729)

(Note) 1. Other than these retirement benefit expenses, retiree premium benefit has been recognized in severance costs in the consolidated statement of income.

2. Other than these retirement benefit expenses, ¥65 million of losses on termination of the retirement benefit plans has been recognized in non-operating expenses in the consolidated statement of income as a result of the termination of the retirement benefit plans of a consolidated subsidiary during the fiscal year ended December 31, 2020.

(5) Adjustments related to defined benefit plans

The past service cost and actuarial gains and losses recognized in accumulated other comprehensive income as remeasurements of defined benefit plans (amount before income tax effect) for the fiscal year ended December 31, 2020, are as follows:

	Domestic plans (Millions of yen)	Foreign plans (Millions of yen)
Past service cost	—	45
Actuarial gains and losses	13,582	1,883
Total	13,582	1,928

(6) Cumulative adjustments related to defined benefit plans

The unrecognized past service cost and unrecognized actuarial gains and losses recognized in accumulated other comprehensive income as remeasurements of defined benefit plans (amount before income tax effect) for the fiscal year ended December 31, 2020, are as follows:

	Domestic plans (Millions of yen)	Foreign plans (Millions of yen)
Unrecognized past service cost	—	(692)
Unrecognized actuarial gains and losses	25,456	(45,863)
Total	25,456	(46,555)

(7) Items related to plan assets

Major components of plan assets

The percentages by major classifications of pension funds in total assets are as follows:

	Domestic plans	Foreign plans
Equity securities	54.8%	27.4%
Debt securities	20.4%	59.2%
Other	24.8%	13.4%
Total	100.0%	100.0%

(Note) 36.6% of the assets of the domestic plans is available-for-sale securities contributed to the employee retirement benefit trust.

Method of setting the long-term expected return rate

Expected return rate on plan assets is determined by considering the current and anticipated future portfolio of plan assets and current and anticipated future long-term performance of individual asset classes that comprise the funds' asset mix.

(8) Basic items for actuarial calculation

Basic items for actuarial calculation are as follows:

	Domestic plans	Foreign plans
Discount rate	0.8%	0.3%-2.5%
Expected return rate on plan assets	3.0%	4.6%-5.0%
Expected rate of increase in salary	3.1%	2.0%-3.5%

3. Defined contribution pension plans

The required contributions borne by the Company and a number of consolidated subsidiaries in relation to the defined contribution pension plans are ¥1,916 million.

Fiscal year 2021 (January 1, 2021 - December 31, 2021)

1. Overview of adopted retirement and pension plans

The Company and some of its domestic consolidated subsidiaries have defined benefit pension plans, such as a cash balance-style pension plan and retirement plans, and defined contribution pension plans. Some foreign consolidated subsidiaries maintain defined benefit pension plans and defined contribution pension plans. The Company has established the employee retirement benefit trust.

2. Defined benefit pension plans (including multiemployer plans)

(1) Reconciliation of beginning and ending balances of defined benefit obligations

	Domestic plans * (Millions of yen)	Foreign plans (Millions of yen)
Defined benefit obligations at beginning of year	90,237	156,205
Service cost	2,243	1,478
Interest cost	713	2,452
Actuarial gains and losses	150	(8,810)
Benefits paid	(4,672)	(7,547)
Past service cost incurred	—	(3)
Exchange translation differences	—	17,182
Increase from new consolidation	—	39,937
Other	—	(1,430)
Retirement benefit obligations at end of year	88,671	199,464

(Note) Some of the domestic consolidated subsidiaries have adopted a simplified method for the calculation of retirement benefits.

(2) Reconciliation of beginning and ending balances of plan assets

	Domestic plans (Millions of yen)	Foreign plans (Millions of yen)
Plan assets at beginning of year	147,788	145,368
Expected return on plan assets	3,293	6,280
Actuarial gains and losses	(3,907)	2,529
Contributions by the employer	955	2,513
Benefits paid	(4,531)	(6,473)
Exchange translation differences	—	16,237
Increase from new consolidation	—	11,726
Other	—	84
Plan assets at end of year	143,597	178,264

(3) Reconciliations of the closing balances of retirement benefit obligations and plan assets, and net amount of liabilities and assets recognized in the consolidated balance sheet

	Domestic plans (Millions of yen)	Foreign plans (Millions of yen)
Funded defined benefit obligations	87,568	197,785
Plan assets	(143,597)	(178,264)
	(56,029)	19,521
Unfunded defined benefit obligations	1,104	1,679
Net amount of liabilities and assets recognized in consolidated balance sheet	(54,926)	21,200
Liabilities (net defined benefit liability)	1,160	34,829
Assets (net defined benefit asset)	(56,086)	(13,629)
Net amount of liabilities and assets recognized in consolidated balance sheet	(54,926)	21,200

(4) Retirement benefit expenses and its breakdowns

	Domestic plans (Millions of yen)	Foreign plans (Millions of yen)
Service cost	2,243	1,478
Interest cost	713	2,452
Expected return on plan assets	(3,293)	(6,280)
Recognition of actuarial gains and losses	263	1,600
Amortization of past service cost	—	(3)
Retirement benefit expenses concerning defined benefit plans	(74)	(753)

(Note) 1. Other than these retirement benefit expenses, retiree premium benefit has been recognized in severance costs in the consolidated statement of income.

2. Other than these retirement benefit expenses, ¥179 million of losses on retiree premium benefit and ¥30 million of losses on termination of the retirement benefit plans as a result of the termination of the retirement benefit plans of a consolidated subsidiary during the fiscal year ended December 31, 2021 have been recognized in non-operating expenses in the consolidated statement of income.

(5) Adjustments related to defined benefit plans

The past service cost and actuarial gains and losses recognized in accumulated other comprehensive income as remeasurements of defined benefit plans (amount before income tax effect) for the fiscal year ended December 31, 2021, are as follows:

	Domestic plans (Millions of yen)	Foreign plans (Millions of yen)
Past service cost	—	1,089
Actuarial gains and losses	(3,795)	8,993
Total	(3,795)	10,082

(6) Cumulative adjustments related to defined benefit plans

The unrecognized past service cost and unrecognized actuarial gains and losses recognized in accumulated other comprehensive income as remeasurements of defined benefit plans (amount before income tax effect) for the fiscal year ended December 31, 2021, are as follows:

	Domestic plans (Millions of yen)	Foreign plans (Millions of yen)
Unrecognized past service cost	—	397
Unrecognized actuarial gains and losses	21,661	(36,870)
Total	21,661	(36,473)

(7) Items related to plan assets

Major components of plan assets

The percentages by major classifications of pension funds in total assets are as follows:

	Domestic plans	Foreign plans
Equity securities	47.3%	31.2%
Debt securities	21.8%	52.4%
Other	30.9%	16.4%
Total	100.0%	100.0%

(Note) 28.2% of the assets of the domestic plans is available-for-sale securities contributed to the employee retirement benefit trust.

Method of setting the long-term expected return rate

Expected return rate on plan assets is determined by considering the current and anticipated future portfolio of plan assets and current and anticipated future long-term performance of individual asset classes that comprise the funds' asset mix.

(8) Basic items for actuarial calculation

Basic items for actuarial calculation are as follows:

	Domestic plans	Foreign plans
Discount rate	0.8%	0.3%-3.0%
Expected return rate on plan assets	3.0%	4.5%-5.0%
Expected rate of increase in salary	3.1%	2.3%-3.5%

3. Defined contribution pension plans

The required contributions borne by the Company and consolidated subsidiaries in relation to the defined contribution pension plans are ¥1,960 million.

(Stock Options, etc.)

Not applicable.

(Tax Effect Accounting)

1. Breakdown of the major components of deferred tax assets and liabilities

	Previous fiscal year as of December 31, 2020	Current fiscal year as of December 31, 2021
<hr/>		
Deferred tax assets		
Inventories	¥3,630 million	¥5,046 million
Property, plant and equipment	4,391	5,721
Intangible assets	5,095	5,677
Research and development costs	4,500	3,184
Allowance for doubtful accounts	1,523	1,409
Provision for bonuses	1,667	1,857
Net defined benefit liability	4,666	7,007
Unrealized gain	758	908
Net operating loss carryforwards (Note 2)	19,252	36,858
Other	13,199	14,319
<hr/>		
Deferred tax assets Subtotal	58,682	81,986
Less: valuation allowance for tax loss carryforwards (Note 2)	(12,699)	(30,407)
Less: valuation allowance for temporary differences	(3,980)	(9,411)
Valuation allowance (Note 1)	(16,679)	(39,818)
<hr/>		
Deferred tax assets Total	42,002	42,168
Deferred tax liabilities		
Property, plant and equipment	(2,720)	(15,928)
Net defined benefit asset	(9,597)	(7,299)
Contribution of securities to employee retirement benefit trust	(1,255)	(1,228)
Deferred income taxes related to gains from property, plant and equipment	(2,560)	(2,441)
Valuation difference on available-for-sale securities	(1,343)	(2,415)
Other	(4,645)	(6,262)
<hr/>		
Deferred tax liabilities Total	(22,120)	(35,573)
<hr/>		
Net deferred tax assets	19,882	6,595
<hr/>		

(Note) 1. There have been significant changes in the amount deducted from deferred tax assets (valuation allowance) and the major components are valuation allowance for tax loss carryforwards of the Sun Chemical Group.

2. The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets.

Previous fiscal year as of December 31, 2020

(Millions of yen)

	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Tax loss carryforwards (*1)	689	1,197	1,631	169	148	15,418	19,252
Valuation allowance	(571)	(1,010)	(1,345)	(151)	(103)	(9,519)	(12,699)
Net deferred tax assets	119	187	286	18	45	5,900	(*2) 6,553

(\*1) Tax loss carryforwards shown in the above table is after multiplying by the statutory tax rate.

(\*2) Deferred tax assets of ¥6,553 million was recognized for tax loss carryforwards of ¥19,252 million. No valuation allowance is recognized for tax loss carryforwards since the amount was determined to be recoverable based on expected future taxable income.

Current fiscal year as of December 31, 2021

(Millions of yen)

	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Tax loss carryforwards (*3)	1,154	1,854	162	170	180	33,338	36,858
Valuation allowance	(1,100)	(1,609)	(137)	(83)	(43)	(27,435)	(30,407)
Net deferred tax assets	54	245	25	87	137	5,903	(*4) 6,451

(\*3) Tax loss carryforwards shown in the above table is after multiplying by the statutory tax rate.

(\*4) Deferred tax assets of ¥6,451 million was recognized for tax loss carryforwards of ¥36,858 million. No valuation allowance is recognized for tax loss carryforwards since the amount was determined to be recoverable based on expected future taxable income.

2. Breakdown of main factors that caused the differences between the normal effective statutory tax rate and the actual effective tax rate after applying tax effect accounting

	Previous fiscal year as of December 31, 2020	Current fiscal year as of December 31, 2021
Normal effective statutory tax rate	30.6%	30.6%
(Adjustments)		
Valuation allowance change	15.9	48.8
Tax rate differences	(6.0)	(3.5)
Equity in earnings of affiliates	(1.0)	(2.8)
Entertainment and other non-deductible expenses	1.2	6.4
Elimination of intercompany dividends income	8.2	20.1
Dividends income and other non-taxable income	(6.8)	(24.4)
State, provincial, municipal and local taxes	0.6	0.6
Tax credit for research and development and others	(3.2)	(3.7)
Tax credit for the Special Tax Law for the March 11 Earthquake	(1.5)	(0.6)
Other	(3.4)	8.4
Actual effective tax rate after applying tax effect accounting	34.6	79.9

(Business Combinations)

Business combination resulting from acquisitions

On June 30, 2021, the Group acquired the shares and assets of the Colors & Effects business from BASF SE of Germany. Since the price adjustment after the acquisition of shares has not been completed and the acquisition cost has not been determined, as well as the purchase price accounting for the acquisition has not been finalized as of December 31, 2021, the assets acquired and liabilities assumed were recognized by preliminary amounts based on the information available at the time.

1. Overview of the business combination

(1) Name of seller	BASF SE
(2) Business and assets acquired	Pigments business—related shares of 18 individual companies—and the assets—including technologies, patents and other intellectual property, as well as inventories
(3) Date of the business combination	June 30, 2021
(4) Legal form of the business combination	Acquisition of shares for a cash consideration
(5) Name of entity after acquisition	Colors & Effects USA LLC and 17 other companies
(6) Percentage of voting rights acquired	100%
(7) Basis for determining the acquiring company	The Group acquired the shares and assets for a cash consideration.

2. Objectives of the business combination

To hasten the qualitative transformation of its Color & Display business, the Company is working to expand its functional pigments business with the aim of driving growth as a leading global manufacturer of high-growth, high-value specialty pigments, including those for displays, cosmetics and automobiles. The annual global pigments market is estimated at approximately ¥2.3 trillion. The Company is one of the world's leading companies in organic pigments and a valued manufacturer of aluminum effect pigments.

The target business, which is based in Europe has sites around the world, had established itself as a prominent global manufacturer of effect pigments (including pearlescent pigments) and specialty inorganic pigments. Accordingly, the product portfolios of the Company and the target business were highly complementary, with little product overlap.

With this acquisition, the Company has added a functional pigments product portfolio that is highly regarded by customers. The Company has committed itself to achieving sustainable growth for its color materials business by expanding its functional pigments business, recognizing this as crucial to bolstering its corporate value.

3. Period for which the financial results of the acquired business and companies are included in the consolidated financial statements for the fiscal year ended December 31, 2021

July 1, 2021–December 31, 2021

4. Cost of acquisition and breakdown by type of consideration

Type of consideration	Cash	¥128,887 million (€1,010 million)
Cost of acquisition		¥128,887 million (€1,010 million)

The cash consideration of ¥128,887 million comprised ¥99,983 million for the acquisition of the shares of 18 individual companies comprising BASF's pigments business, as well as ¥28,903 million for pigments business-related assets, including technologies, patents and other intellectual property, as well as inventories.

5. Description and amount of major acquisition costs

Advisory fees and others	¥5,299 million
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6. Amount, reason for recognition, method and period of amortization of goodwill

(1) Amount of goodwill arising from the business combination	¥19,598 million
(2) Reason for recognition of goodwill	Because the cost of acquisition exceeded the net of assets acquired and liabilities assumed, the excess is recognized as goodwill.
(3) Method and period of amortization	Straight-line method over 20 years

7. Amount of non-current intangible assets other than goodwill and breakdown by principal type, and weighted-average amortization period overall and by principal type

(1) Amount allocated to non-current intangible assets and breakdown by principal type

Contracts and related assets	¥5,632 million
Trademarks	3,197 million
Technologies and related assets	2,620 million
Others	1,592 million
<b>Total</b>	<b>¥13,041 million</b>

(2) Weighted-average amortization period overall and by principal type

Contracts and related assets	12 years
Trademarks and trade names	20 years
Technologies and related assets	15 years
Others	20 years
<b>Total</b>	<b>15 years</b>

8. Amount of assets acquired and liabilities assumed and breakdown by type as of the business combination date

Current assets	¥107,433 million
Non-current assets	105,215 million
<b>Total assets acquired</b>	<b>¥212,648 million</b>
Current liabilities	¥51,112 million
Non-current liabilities	48,827 million
<b>Total liabilities assumed</b>	<b>¥99,939 million</b>

The amount of assets acquired and liabilities assumed as of the business combination date and breakdown by type shown above represent the assets acquired and liabilities assumed with the acquisition of the shares of the 18 acquired companies comprising BASF's pigments business, in addition to pigments business-related assets, including technologies, patents and other intellectual property, as well as inventories.

9. Estimated effect of the business combination on the consolidated statement of income and its calculation method provided that the business combination was completed at the beginning of the fiscal year ended December 31, 2021

Net sales	¥64,879 million
Operating income	¥2,113 million

(Method used to calculate estimated amount)

The impact on the consolidated statement of income for the fiscal year ended December 31, 2021, assuming the business combination had been completed on the beginning of the fiscal year, is estimated using net sales and operating income amounts in the financial statements of the acquiring companies from the beginning of the fiscal year to the business combination date, adjusted for the amortization of goodwill, etc., as if goodwill, etc., arising from the business combination on the date that control was obtained had arisen on the beginning of the fiscal year.

This footnote has not been audited.

(Asset Retirement Obligations)

Omitted for lack of significance.

(Rentals and Other Real Estate Assets)

Omitted for lack of significance.

(Segment Information, etc.)

[Segment Information]

1. Description of Reportable Segments

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to evaluate their performance and determine the allocation of management resources.

The Group has six product divisions, namely “Printing Materials”, “Packaging Materials”, “Color Materials”, “Display Materials”, “Performance Materials” and “Composite Materials”, and each product division conducts its business.

The product divisions are aggregated into three reportable segments, namely “Packaging & Graphic”, “Color & Display”, and “Functional Products”, based on the similarity of the products and services.

“Packaging & Graphic” mainly consists of gravure inks, flexo inks, offset inks, news inks, jet inks and polystyrene. “Color & Display” mainly consists of organic pigments, liquid crystal materials and health foods. “Functional Products” mainly consists of synthetic resins, such as acrylic, polyurethane, epoxy resins, PPS compounds and industrial adhesive tapes.

2. Method of measurement for the amounts of sales, profit (loss), assets, liabilities and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in “Basis of Preparation of Consolidated Financial Statements.”

Segment profits are based on operating income.

Intersegment sales are mainly based on market price or cost of goods manufactured.

3. Information about sales, profit (loss), assets, liabilities and other items

Previous fiscal year ended December 31, 2020

(Millions of yen)

	Reportable segments				Others	Total
	Packaging & Graphics	Color & Display	Functional Products	Total		
Net sales:						
Sales to external customers	388,423	79,404	232,979	700,806	417	701,223
Intersegment sales and transfers	—	26,398	3,014	29,413	—	29,413
Total	388,423	105,803	235,993	730,218	417	730,636
Segment profit	21,766	8,443	17,103	47,312	427	47,739
Segment assets	356,273	87,727	331,773	775,773	35,800	811,573
Others:						
Depreciation and amortization	12,430	4,515	14,116	31,060	521	31,581
Amortization of goodwill	33	—	110	143	—	143
Investments in equity-method affiliates	5,505	678	35,251	41,434	—	41,434
Increase in property, plant and equipment and intangible assets	14,039	3,229	15,542	32,810	235	33,045

(Millions of yen)

	Reportable segments				Others	Total
	Packaging & Graphics	Color & Display	Functional Products	Total		
Net sales:						
Sales to external customers	439,807	134,970	280,161	854,938	441	855,379
Intersegment sales and transfers	—	32,225	3,156	35,381	—	35,381
Total	439,807	167,194	283,318	890,319	441	890,760
Segment profit	21,624	3,950	26,200	51,774	408	52,182
Segment assets	389,075	294,132	342,775	1,025,982	41,539	1,067,521
Others:						
Depreciation and amortization	13,503	8,276	14,137	35,917	500	36,417
Amortization of goodwill	55	487	114	656	—	656
Investments in equity-method affiliates	5,808	9,627	26,061	41,496	—	41,496
Increase in property, plant and equipment and intangible assets	10,703	8,156	18,388	37,247	275	37,522

(Note) The Group acquired the shares and assets of the Colors & Effects business from BASF SE of Germany and included Colors & Effects USA LLC and other 17 companies in the scope of consolidation in the fiscal year ended December 31, 2021. In line with this, the amount of segment assets of Color & Display has increased. The details are in "V Financial Information 1. Consolidated Financial Statements, etc. (1) Notes to Consolidated Financial Statements (Business Combinations)".

4. Differences between reportable segments total and amounts reported in the consolidated financial statements, and the breakdown of the main factors underlying these differences (notes on adjusting for differences)

(Millions of yen)

Net sales	Previous fiscal year ended December 31, 2020	Current fiscal year ended December 31, 2021
Reportable segments total	730,218	890,319
Sales in "Others"	417	441
Elimination of intersegment transactions	(29,413)	(35,381)
Net sales reported in the consolidated financial statements	701,223	855,379

(Millions of yen)

Profit	Previous fiscal year ended December 31, 2020	Current fiscal year ended December 31, 2021
Reportable segments total	47,312	51,774
Profit in "Others"	427	408
Corporate expenses	(8,076)	(9,289)
Operating income reported in the consolidated financial statements	39,663	42,893

(Note) Corporate expenses substantially consist of R&D expenses incurred by the DIC Central Research Laboratories to develop new products, which are not included in any reportable segment.

(Millions of yen)

Assets	Previous fiscal year as of December 31, 2020	Current fiscal year as of December 31, 2021
Reportable segments total	775,773	1,025,982
Assets in "Others"	35,800	41,539
Elimination of intersegment assets	(48,404)	(46,159)
Corporate assets	54,781	50,119
Total assets reported in the consolidated financial statements	817,950	1,017,481

(Note) Corporate assets consist of deferred tax assets and assets of the DIC Central Research Laboratories and Kawamura Memorial DIC Museum of Art, which are not included in any reportable segment.

(Millions of yen)

Other items	Total reportable segments		Other		Adjustment		Amount recognized in the consolidated financial statements	
	Previous fiscal year	Current fiscal year	Previous fiscal year	Current fiscal year	Previous fiscal year	Current fiscal year	Previous fiscal year	Current fiscal year
Depreciation and amortization	31,060	35,917	521	500	999	977	32,581	37,394
Amortization of goodwill	143	656	—	—	—	—	143	656
Investments in equity-method affiliates	41,434	41,496	—	—	—	—	41,434	41,496
Increase in property, plant and equipment and intangible assets	32,810	37,247	235	275	954	1,119	33,999	38,641

(Note) Adjustments are as follows:

1. The adjustments for depreciation and amortization are mainly depreciation and amortization related to the DIC Central Research Laboratories that cannot be allocated to any reportable segment.
2. The adjustments for increase in property, plant and equipment and intangible assets are mainly capital investments of the DIC Central Research Laboratories that cannot be allocated to any reportable segment.

[Related information]

Previous fiscal year ended December 31, 2020

1. Information by product and service

Since similar information is disclosed in the segment information, the description is omitted.

2. Information by region

(1) Net sales

(Millions of yen)

Japan	United States	Others	Total
247,062	90,996	363,164	701,223

(Note) Net sales are based on customer location and are classified by country.

(2) Property, plant and equipment

(Millions of yen)

Japan	United States	Others	Total
124,247	24,940	78,892	228,078

3. Information by major customer

Not applicable because there is no single customer which accounts for more than 10% of net sales shown on the consolidated statement of income.

Current fiscal year ended December 31, 2021

1. Information by product and service

Since similar information is disclosed in the segment information, the description is omitted.

2. Information by region

(1) Net sales

(Millions of yen)

Japan	United States	Others	Total
279,647	107,761	467,971	855,379

(Note) Net sales are based on customer location and are classified by country.

(2) Property, plant and equipment

(Millions of yen)

Japan	United States	Others	Total
125,599	52,526	129,558	307,684

3. Information by major customer

Not applicable because there is no single customer which accounts for more than 10% of net sales shown on the consolidated statement of income.

[Information about impairment loss on non-current assets by reporting segment]

Previous fiscal year ended December 31, 2020

(Millions of yen)

	Packaging & Graphic	Color & Display	Functional Products	Others	Corporate and eliminations	Total
Impairment loss	479	383	389	—	—	1,251

Current fiscal year ended December 31, 2021

(Millions of yen)

	Packaging & Graphic	Color & Display	Functional Products	Others	Corporate and eliminations	Total
Impairment loss	16	1,299	248	—	—	1,563

[Information about amortization of goodwill and unamortized balance by reportable segment]

Previous fiscal year ended December 31, 2020

(Millions of yen)

	Packaging & Graphic	Color & Display	Functional Products	Others	Corporate and eliminations	Total
Amortization for the year	33	—	110	—	—	143
Balance at the end of the year	229	—	590	—	—	819

Current fiscal year ended December 31, 2021

(Millions of yen)

	Packaging & Graphic	Color & Display	Functional Products	Others	Corporate and eliminations	Total
Amortization for the year	55	487	114	—	—	656
Balance at the end of the year	204	19,448	530	—	—	20,182

[Information about gain on bargain purchase by reportable segment]

Previous fiscal year ended December 31, 2020

(Millions of yen)

	Packaging & Graphic	Color & Display	Functional Products	Others	Corporate and eliminations	Total
Gain on bargain purchase	1,295	—	—	—	—	1,295

(Note) The amount stated above is gain on bargain purchase resulting from an acquisition of a subsidiary.

Current fiscal year ended December 31, 2021

Not applicable.

## (Related Parties)

## 1. Related-Party Transactions

## (1) Transactions between the Company Submitting Consolidated Financial Statements and Related Parties

Directors, Corporate Auditors, Major Individual Stockholders and Others of the Company Submitting Consolidated Financial Statements

Previous fiscal year ended December 31, 2020

Type of related party	Name	Location	Capital or investment (Millions of yen)	Principal business	Ownership of voting rights	Relation with related parties	Contents of transaction	Amount of transaction (Millions of yen)	Account	Balance at year-end (Millions of yen)
Companies where directors and their close relatives owned a majority of the voting rights (Note 1)	Nissei Real-Estate Co., Ltd.	Chiyoda-ku, Tokyo	10	Rental of properties and others	—	Rental of buildings and others	Rental of buildings and others (Note 2)	2,217	Security deposit	1,832
	Dainichi Can Co., Ltd.	Chiyoda-ku, Tokyo	10	Manufacture and sale of metallic containers	—	Purchase of metallic containers, and others	Purchase of metallic containers and others (Note 3)	413	Electronically recorded obligations, accounts payable-trade, and accounts payable-other	182
							Sales of merchandise and finished goods, and offering of services (Note 4)	43	Trade notes and accounts receivable	15
	Nissin Trading Co., Ltd.	Chiyoda-ku, Tokyo	20	Sale, import and export of petrochemical-related products	—	Purchase of raw materials and others	Purchase of raw materials and others (Note 5)	6,300	Electronically recorded obligations, accounts payable-trade, and accounts payable-other	1,245
Sales of merchandise and finished goods, and offering of services (Note 4)							3,375	Accounts receivable-trade and accounts receivable-other	1,380	

Among the above amounts, the amount of transaction does not include consumption taxes and the balance at year-end includes consumption taxes.

## Policy for Determining Terms and Conditions

## (Note)

1. Yoshihisa Kawamura, a director of the Company, and his close relatives substantially own a majority of the voting rights of Nissei Real-Estate Co., Ltd.  
Dainichi Can Co., Ltd. and Nissin Trading Co., Ltd. are fully owned by Nissei Real-Estate Co., Ltd.
2. "Rental of buildings and others" are determined based on an arm's-length transaction in the neighboring area.
3. "Purchase of metallic containers and others" are determined based on an arm's-length transaction.
4. "Sales of merchandise and finished goods, and offering of services" are determined on an arm's-length transaction.
5. "Purchase of raw materials and others" are determined based on an arm's-length transaction.

Current fiscal year ended December 31, 2021

Type of related party	Name	Location	Capital or investment (Millions of yen)	Principal business	Ownership of voting rights	Relation with related parties	Contents of transactions	Amount of transaction (Millions of yen)	Account	Balance at year-end (Millions of yen)
Companies where directors and their close relatives owned a majority of the voting rights (Note 1)	Nissei Real-Estate Co., Ltd.	Chiyoda-ku, Tokyo	10	Rental of properties and others	—	Rental of buildings and others	Rental of buildings and others (Note 2)	2,210	Security deposit	1,830
	Dainichi Can Co., Ltd.	Chiyoda-ku, Tokyo	10	Manufacture and sale of metallic containers	—	Purchase of metallic containers and others	Purchase of metallic containers and others (Note 3)	479	Electronically recorded obligations, accounts payable-trade, and accounts payable-other	194
							Sales of merchandise and finished goods, and offering of services (Note 4)	52	Trade notes and accounts receivable	22
	Nissin Trading Co., Ltd.	Chiyoda-ku, Tokyo	20	Sale, import and export of petrochemical-related products	—	Purchase of raw materials and others	Purchase of raw materials and others (Note 5)	6,971	Electronically recorded obligations, accounts payable-trade, and accounts payable-other	1,854
							Sales of merchandise and finished goods, and offering of services (Note 4)	3,854	Accounts receivable-trade and accounts receivable-other	1,175

Among the above amounts, the amount of transaction does not include consumption taxes and the balance at year-end includes consumption taxes.

Policy for Determining Terms and Conditions

(Note)

1. Yoshihisa Kawamura, a director of the Company, and his close relatives substantially own a majority of the voting rights of Nissei Real-Estate Co., Ltd.  
Dainichi Can Co., Ltd. and Nissin Trading Co., Ltd. are fully owned by Nissei Real-Estate Co., Ltd.
2. “Rental of buildings and others” are determined based on an arm’s-length transaction in the neighboring area.
3. “Purchase of metallic containers and others” are determined based on an arm’s-length transaction.
4. “Sales of merchandise and finished goods, and offering of services” are determined on an arm’s-length transaction.
5. “Purchase of raw materials and others” are determined based on an arm’s-length transaction.

(2) Transactions between consolidated subsidiaries of the company submitting the consolidated financial statements and related parties

Directors, Corporate Auditors, Major Individual Stockholders and Others of the Company Submitting Consolidated Financial Statements

Previous fiscal year ended December 31, 2020

Type of related party	Name	Location	Capital or investment (Millions of yen)	Principal business	Ownership of voting rights	Relation with related parties	Contents of transactions	Amount of transaction (Millions of yen)	Account	Balance at year-end (Millions of yen)
Companies where directors and their close relatives owned a majority of the voting rights etc. (including subsidiaries of said companies, etc.) (Note 1)	Nissei Real-Estate Co., Ltd.	Chiyoda-ku, Tokyo	10	Rental of properties and others	—	Rental of buildings and others	Rental of buildings and others (Note 2)	16	Security deposit	7
	Dainichi Can Co., Ltd.	Chiyoda-ku, Tokyo	10	Manufacture and sale of metallic containers	—	Purchase of metallic containers and others	Purchase of metallic containers and others (Note 3)	728	Electronically recorded obligations, accounts payable-trade, and accounts payable-other	290
							Sales of merchandise and finished goods, and offering of services (Note 4)	56	Trade notes and accounts receivable	25
	Nissin Trading Co., Ltd.	Chiyoda-ku, Tokyo	20	Sale, import and export of petrochemical-related products	—	Purchase of raw materials and others	Purchase of raw materials and others (Note 5)	1,168	Electronically recorded obligations, accounts payable-trade, and accounts payable-other	256
							Sales of merchandise and finished goods, and offering of services (Note 4)	535	Accounts receivable-trade and accounts receivable-other	173
	SHANGHAI NISSIN TRADING CO., LTD.	Shanghai, PRC	US \$ 200	Sale, import and export of petrochemical-related products	—	Purchase of raw materials and others	Purchase of raw materials and others (Note 5)	229	Accounts payable-trade	19

Among the above amounts, the amount of transaction does not include consumption taxes and the balance at year-end includes consumption taxes.

Policy for Determining Terms and Conditions

(Note)

- Yoshihisa Kawamura, a director of the Company, and his close relatives substantially own a majority of the voting rights of Nissei Real-Estate Co., Ltd.  
Dainichi Can Co., Ltd. and Nissin Trading Co., Ltd. are fully owned by Nissei Real-Estate Co., Ltd.  
SHANGHAI NISSIN TRADING CO., LTD. is fully owned by Nisshin Trading Co., Ltd.
- “Rental of buildings and others” are determined based on an arm’s-length transaction in the neighboring area.
- “Purchase of metallic containers and others” are determined based on an arm’s-length transaction.
- “Sales of merchandise and finished goods, and offering of services” are determined on an arm’s-length transaction.

5. “Purchase of raw materials and others” are determined based on an arm’s-length transaction.

Current fiscal year ended December 31, 2021

Type of related party	Name	Location	Capital or investment (Millions of yen)	Principal business	Ownership of voting rights	Relation with related parties	Contents of transactions	Amount of transaction (Millions of yen)	Account	Balance at year-end (Millions of yen)
Companies where directors and their close relatives owned a majority of the voting rights, etc. (including subsidiaries of said companies, etc.) (Note 1)	Nissei Real-Estate Co., Ltd.	Chiyoda-ku, Tokyo	10	Rental of properties and others	—	Rental of buildings and others	Rental of buildings and others (Note 2)	12	Security deposit	7
	Dainichi Can Co., Ltd.	Chiyoda-ku, Tokyo	10	Manufacture and sale of metallic containers	—	Purchase of metallic containers, and others	Purchase of metallic containers and others (Note 3)	762	Electronically recorded obligations, accounts payable-trade, and accounts payable-other	321
							Sales of merchandise and finished goods, and offering of services (Note 4)	62	Trade notes and accounts receivable	29
	SHANGHAI DAINICHI CAN CO., LTD.	Shanghai, PRC	US \$134	Manufacture and sale of metallic containers	—	Purchase of metallic containers, and others	Purchase of metallic containers and others (Note 3)	20	—	—
	Nissin Trading Co., Ltd.	Chiyoda-ku, Tokyo	20	Sale, import and export of petrochemical-related products	—	Purchase of raw materials, and others	Purchase of raw materials and others (Note 5)	1,797	Electronically recorded obligations, accounts payable-trade, and accounts payable-other	296
							Sales of merchandise and finished goods, and offering of services (Note 4)	628	Accounts receivable-trade and accounts receivable-other	227
SHANGHAI NISSIN TRADING CO., LTD.	Shanghai, PRC	US\$ 200	Sale, import and export of petrochemical-related products	—	Purchase of raw materials, and others	Purchase of raw materials and others (Note 5)	353	Accounts payable-trade	111	

Among the above amounts, the amount of transaction does not include consumption taxes and the balance at year-end includes consumption taxes.

#### Policy for Determining Terms and Conditions

(Note)

1. Yoshihisa Kawamura, a director of the Company, and his close relatives substantially own a majority of the voting rights of Nissei Real-Estate Co., Ltd.

Dainichi Can Co., Ltd. and Nissin Trading Co., Ltd. are fully owned by Nissei Real-Estate Co., Ltd.

SHANGHAI DAINICHI CAN CO., LTD. is fully owned by Dainichi Can Co., Ltd.

SHANGHAI NISSIN TRADING CO., LTD. is fully owned by Nisshin Trading Co., Ltd.

2. "Rental of buildings and others" are determined based on an arm's-length transaction in the neighboring area.
3. "Purchase of metallic containers and others" are determined based on an arm's-length transaction.
4. "Sales of merchandise and finished goods, and offering of services" are determined on an arm's-length transaction.
5. "Purchase of raw materials and others" are determined based on an arm's-length transaction.

2. Notes on parent company and significant affiliates

Not applicable.

## (Per Share Information)

	Previous consolidated fiscal year (From January 1, 2020 to December 31, 2020)	Current consolidated fiscal year (From January 1, 2021 to December 31, 2021)
Shareholder's equity per share	3,364.92 yen	3,654.61 yen
Earnings per share	139.81 yen	46.12 yen

(Note) 1. Diluted earnings per share is not stated because there are no diluted shares.

2. From the fiscal year ended December 31, 2017, the Company introduced the Board Benefit Trust (BBT). The shares held by the trust are recorded under net assets as treasury shares. The number of treasury shares excluded from the number of shares issued as of the balance sheet date used for the calculation of shareholder's equity per share includes the number of shares held by the trust. The number of treasury shares excluded from the weighted-average number of shares issued during the fiscal year used for the calculation of earnings per share includes the number of shares held by the trust.

The amount of treasury shares excluded from the calculation of shareholder's equity per share was 139,000 shares at the end of the previous consolidated fiscal year and 131,700 shares at the end of the current consolidated fiscal year. In addition, the average number of treasury shares excluded from calculation of earnings per share was 140,038 shares at the end of the previous fiscal year and 132,908 shares at the end of the current fiscal year.

3. The basis for calculation of earnings per shares is as follows.

	Previous consolidated fiscal year (From January 1, 2020 to December 31, 2020)	Current consolidated fiscal year (From January 1, 2021 to December 31, 2021)
Net income attributable to owners of the parent (Millions of yen)	13,233	4,365
Amount not attributable to common shareholders (Millions of yen)	—	—
Net income attributable to owners of the parent of common stock (Millions of yen)	13,233	4,365
Average number of shares of common stock during the period (1000 shares)	94,651	94,655

4. The basis for calculation of equity per share is as follows.

	Previous consolidated fiscal year (From January 1, 2020 to December 31, 2020)	Current consolidated fiscal year (From January 1, 2021 to December 31, 2021)
Net assets (Millions of yen)	351,364	381,008
Amount to be excluded from the total amount of Net assets (Millions of yen)	32,873	35,081
(Non-controlling interests)	(32,873)	(35,081)
Net assets at the end of the period for common stock (Millions of yen)	318,492	345,927
Number of common shares used in the calculation of shareholder's equity per share at the end of the period (1000 shares)	94,651	94,655

## (Significant Subsequent Events)

Not applicable.

⑤ Consolidated Supplementary Schedules

[Schedule of Bonds Payable]

Company	Description	Date of issuance	Balance at the beginning of current fiscal year (Millions of yen)	Balance at the ending of current fiscal year (Millions of yen)	Due within one year (Millions of yen)	Interest rate	Collateral	Maturity
(Note 1)	36th unsecured bonds	February 4, 2015	10,000	10,000	10,000	0.53%	None	February 4, 2022
(Note 1)	37th unsecured bonds	September 18, 2015	10,000	10,000	—	1.00%	None	September 18, 2025
(Note 1)	38th unsecured bonds	July 12, 2016	5,000	5,000	—	0.95%	None	July 11, 2036
(Note 1)	39th unsecured bonds	September 15, 2016	5,000	5,000	—	0.36%	None	September 15, 2026
(Note 1)	40th unsecured bonds	April 21, 2017	10,000	10,000	—	0.42%	None	April 21, 2027
(Note 1)	41st unsecured bonds	July 12, 2017	10,000	10,000	10,000	0.15%	None	July 12, 2022
(Note 1)	42nd unsecured bonds	April 17, 2018	10,000	10,000	—	0.15%	None	April 17, 2023
(Note 1)	43rd unsecured bonds	April 19, 2019	10,000	10,000	—	0.19%	None	April 19, 2024
(Note 1)	44th unsecured bonds	October 25, 2019	10,000	10,000	—	0.28%	None	October 25, 2029
(Note 1)	45th unsecured bonds	July 16, 2020	20,000	20,000	—	0.05%	None	July 14, 2023
(Note 1)	46th unsecured bonds	September 22, 2021	—	20,000	—	0.001%	None	September 20, 2024
(Note 1)	47th unsecured bonds	September 22, 2021	—	10,000	—	0.13%	None	March 19, 2027
(Note 1)	48th unsecured bonds	September 22, 2021	—	15,000	—	0.23%	None	September 21, 2028
(Note 1)	49th unsecured bonds	September 22, 2021	—	15,000	—	0.30%	None	September 22, 2031
—	Total	—	100,000	160,000	20,000	—	—	—

(Note) 1. DIC Corporation

2. The redemption schedule within 5 years after the consolidated closing date is as follows.

Within 1 year (Millions of yen)	Over 1 year to 2 years (Millions of yen)	Over 2 years to 3 years (Millions of yen)	Over 3 years to 4 years (Millions of yen)	Over 4 years to 5 years (Millions of yen)
20,000	30,000	30,000	10,000	5,000

[Schedule of Loans]

Category	Balance at the beginning of current fiscal year (Millions of yen)	Balance at the ending of current fiscal year (Millions of yen)	Average interest rate	Payment due
Short-term loans payable	10,275	10,437	1.03%	—
Current portion of long-term loans payable	27,096	37,131	0.75%	—
Long-term loans payable (Excluding current portion of long-term loans payable)	123,766	171,443		2023 to 2031
Current portion of lease liabilities	1,061	1,092	—	—
Lease liabilities (Excluding Current portion of lease liability)	4,543	4,112		2023 to 2067
Other interest-bearing liabilities Commercial paper due within one year	—	—	(0.03) %	—
Total	166,740	224,214	—	—

(Note) 1. Average interest rate is calculated based on the average balance of borrowings during the period.

2. Average interest rate of lease liabilities is not stated because certain consolidated subsidiaries record lease liabilities on the consolidated balance sheet at the amount before adjusting for interest included in total lease payments.

3. Repayment schedule of Long-term loans payable and Lease liabilities (excluding current portion) within five years after the closing date is as follows.

	Over 1 year to 2 years (Millions of yen)	Over 2 years to 3 years (Millions of yen)	Over 3 years to 4 years (Millions of yen)	Over 4 years to 5 years (Millions of yen)
Long-term loans payable	22,772	28,338	7,083	62,960
Lease liabilities	814	520	460	457

[Asset Retirement Obligations Schedule]

As the amount of Asset retirement obligations at the beginning of the current consolidated fiscal year and the end of the current consolidated fiscal year is less than a hundredth of the total amount of liabilities and net assets at the beginning of the current consolidated fiscal year and the end of the current consolidated fiscal year, respectively. This statement has omitted pursuant to Article 92-2 of the Ordinance on Consolidated Financial Statements.

## (2) Other Information

## Quarterly Financial Information for current fiscal year

(Cumulative Period)	1st Quarter	2nd Quarter	3rd Quarter	Current fiscal year
Net sales (Millions of yen)	190,262	391,793	615,842	855,379
Income before income taxes and non-controlling interests (Millions of yen)	13,867	22,247	24,999	32,112
Net income attributable to owners of parent (Millions of yen)	10,197	16,028	15,285	4,365
Earnings per share (Yen)	107.73	169.33	161.48	46.12

(Accounting Period)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Earnings per share (net loss per share) (Yen)	107.73	61.61	(7.86)	(115.36)

(Note) From the fiscal year ended December 31, 2017, the Company introduced the Board Benefit Trust (BBT). The shares held by the trust are recorded under net assets as treasury shares. The number of treasury shares excluded from the weighted-average number of shares issued during the fiscal year used for the calculation of earnings per share includes the number of shares held by the trust.

VI. Stock-Related Administration for the Company

Business year	From January 1 to December 31
Annual general meeting of shareholders	During March
Record date	December 31
Record date of dividends	June 30, December 31
Number of shares per unit	100 shares
Purchase and sales of shares less than one unit	(Special Account)
Handling office	Mitsubishi UFJ Trust and Banking Corporation Stock Agency Department 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Transfer agent	(Special Account) Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Forward office	—
Purchasing fee	The amount separately specified as the amount equivalent to fees pertaining to entrustment of sales and purchase of shares
Method of public notice	It will be an electronic public notice. <a href="https://www.dic-global.com/">https://www.dic-global.com/</a> However, if the public notice cannot be made by electronic public notice due to an accident or other unavoidable reasons, it will be published in The Nikkei.
Special benefits for shareholders	Shareholder benefit plan (1) Entitled shareholders ① The holders of 100 shares or more who are listed or recorded in the register of shareholders as of June 30 of each year ② The holders of 100 shares or more who are listed or recorded in the register of shareholders as of December 31 of each year (2) Details of benefits ① One original calendar ② DIC Group product and two postcards with admission ticket to Kawamura Memorial DIC Museum of Art (two persons per postcard)

(Note) Pursuant to the provisions of the Articles of Incorporation of the Company, shareholders who hold shares less than one unit may not, with respect to their shares less than one unit, exercise rights other than the following rights:

- (1) Rights listed in each item of Article 189, Paragraph 2 of the Companies Act
- (2) The right to make a request under Article 166, Paragraph 1 of the Companies Act
- (3) The right to receive the allotment of shares for subscription and the allotment of share options for subscription in proportion to the number of shares held by shareholders

## VII. Reference Information of the Company

### 1. Information on the Parent Company

The Company has no parent company.

### 2. Other Reference Information

The following documents were filed during the period from the commencing date of current fiscal year ended December 31, 2021 to the filing date of the Annual Securities Report.

- |   |  |
|---|--|
| (1) Annual Securities Report and Documents Attached and Confirmation Letter<br>Business term 123rd (From January 1, 2020 to December 31, 2020)  | March 30, 2021<br>Filed with the Director-General of the Kanto Local Finance Bureau      |
| (2) Management's Report on Internal Control and Documents Attached  | March 30, 2021<br>Filed with the Director-General of the Kanto Local Finance Bureau      |
| (3) Extraordinary Report<br>Pursuant to Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, item 9-2 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs (Results of Execution of Voting Rights at the General Meeting of Shareholders) | March 31, 2021<br>Filed with the Director-General of the Kanto Local Finance Bureau      |
| (4) Shelf Registration Statement (Share certificates, Bonds, etc.)  | April 2, 2021<br>Filed with the Director-General of the Kanto Local Finance Bureau       |
| (5) Quarterly Reports and Confirmation Letter<br>First Quarter of Business term 124th<br>(From January 1, 2021 to March 31, 2021)   | May 14, 2021<br>Filed with the Director-General of the Kanto Local Finance Bureau        |
| (6) Extraordinary Report<br>Pursuant to Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, item 3 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs (Changes of Specified Subsidiary)  | July 21, 2021<br>Filed with the Director-General of the Kanto Local Finance Bureau       |
| (7) Amendment to Shelf Registration Statement   | July 21, 2021<br>Filed with the Director-General of the Kanto Local Finance Bureau       |
| (8) Quarterly Report and Confirmation Letter<br>Second Quarter of Business term 124th<br>(From April 1, 2021 to June 30, 2021)  | August 10, 2021<br>Filed with the Director-General of the Kanto Local Finance Bureau     |
| (9) Shelf Registration Statement (Share certificates, Bonds, etc.) and Documents Attached   | September 15, 2021<br>Filed with the Director-General of the Kanto Local Finance Bureau  |
| (10) Quarterly Report and Confirmation Letter<br>Third Quarter of Business term 124th<br>(From July 1, 2021 to September 30, 2021)  | November 12, 2021<br>Submitted to the Director-General of the Kanto Local Finance Bureau |

### Part 2 Information on Guarantors, etc., for the Company

Not applicable.

# INDEPENDENT AUDITOR'S REPORT

March 28, 2022

To the Board of Directors of  
DIC Corporation:

Deloitte Touche Tohmatsu LLC  
Tokyo office

Designated Engagement Partner,  
Certified Public Accountant:

Hidetsugu Tsuda

Designated Engagement Partner,  
Certified Public Accountant:

Takaya Otake

Designated Engagement Partner,  
Certified Public Accountant:

Tepei Yamamoto

## Audit of Financial Statements

### *Opinion*

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements of DIC Corporation and its consolidated subsidiaries (the "Group") included in the Financial Section, namely, the consolidated balance sheet as of December 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fiscal year from January 1, 2021 to December 31, 2021, and a summary of significant accounting policies and other explanatory information, and the consolidated supplementary schedules.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Key Audit Matter*

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Acquisition of the shares and assets of BASF Colors & Effects

Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>As described in Note "Business combinations" and Note "Accounting Estimates" to the consolidated financial statements, the Group acquired the shares and assets of BASF Colors &amp; Effects, a pigment business from BASF SE of Germany, on June 30, 2021.</p> <p>Acquisition costs shall be allocated to assets acquired and liabilities assumed within one year after the acquisition date based on the fair values of identifiable assets and liabilities as of the acquisition date. As the purchase price allocation for the acquisition has not been finalized as of December 31, 2021, the Group allocated the purchase price primarily based on the information available as of December 31, 2021 and recognized Property, plant and equipment of ¥69,024 million (Buildings and structures of ¥16,803 million, Machinery, equipment and vehicles of ¥38,556 million, and Land of ¥9,402 million etc.), Intangible assets of ¥21,008 million (Technologies and related assets of ¥8,922 million, Contracts and related assets of ¥5,632 million and Trademarks of ¥3,354 million etc.) and Goodwill of ¥19,598 million in the consolidated balance sheet. The total of these assets is 10.2% of the Total Assets and accounts for a significant portion.</p> <p>Depending on the nature of the assets, fair values are estimated using the cost approach, income approach (relief-from royalty method etc.), and market approach, etc. The following assumptions are mainly used to estimate the fair value:</p> <ul style="list-style-type: none"> <li>• Property, plant and equipment market price, replacement cost, future cash flow projection and discount rate</li> <li>• Intangible assets market price, royalty rate, future cash flow projection and discount rate</li> </ul> <p>If the methodologies and assumptions are adopted inappropriately based on the nature of the major assets, the financial position may not be fairly stated and the future financial results may be affected.</p> <p>As a result of the preliminary purchase price allocation, the Group's recognized the quantitatively significant assets. As such, there are potential risks that the Group's financial position and future financial results may not be reasonable if these methodologies and assumptions are inappropriate. Therefore, we identified the acquisition of the shares and assets of BASF Colors &amp; Effects business as a key audit matter.</p>	<p>To address the key audit matter, we tested the effectiveness of internal controls over the identification of assets and liabilities, and fair value measurement related to the acquisition. Additionally, we performed the following audit procedures, among others:</p> <ul style="list-style-type: none"> <li>• In order to understand the purpose of this acquisition, and the business and business environment of the acquired business, we inquired of management and inspected the related contracts and minutes.</li> <li>• We assessed the competence, capabilities and objectivity of the valuation experts used by the management in identifying the assets acquired and liabilities assumed and estimating fair values.</li> <li>• We evaluated the reasonableness of the following factors with the assistance of our network firm's fair value specialists depending on the nature of assets and valuation method. <ul style="list-style-type: none"> <li>• Valuation methodologies</li> <li>• Valuation assumptions</li> </ul> </li> </ul>

## *Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

## *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Audit of Internal Control**

### *Opinion*

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of DIC Corporation as of December 31, 2021.

In our opinion, management's report on internal control over financial reporting referred to above, which represents that the internal control over financial reporting of DIC Corporation as of December 31, 2021, is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

### *Basis for Opinion*

We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Internal Control Audit section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Responsibility of Management and Audit & Supervisory Board for Report on Internal Control*

Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing and verifying the design and operating effectiveness of internal control over financial reporting. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

### *Auditor's Responsibilities for the Internal Control Audit*

Our objectives are to obtain reasonable assurance about whether management's report on internal control over financial reporting is free from material misstatement and to issue an auditor's report that includes our opinion.

As part of an audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform audit procedures to obtain audit evidence regarding the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on the auditor's judgment, including the significance of effects on reliability of financial reporting.
- Examine representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control.
- Obtain sufficient appropriate audit evidence regarding the results of the assessment of internal control over financial reporting. We are responsible for the direction, supervision and performance of the internal control audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the internal control audit, result of the internal control audit, including any identified material weakness which should be disclosed and the result of remediation.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

#### **Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

#### Notes to the Readers of Independent Auditor's Report

This is an English translation of the independent auditor's report as required by the Financial Instruments and Exchange Act of Japan for the conveniences of the reader.

[Cover]

[Document filed]	Confirmation Letter
[Applicable law]	Article 24-4-2, paragraph 1 of the Financial Instruments and Exchange Act of Japan
[Filed with]	Director, Kanto Local Finance Bureau
[Filing date]	March 29, 2022
[Company name]	DIC Kabushiki-Kaisha
[Company name in English]	DIC Corporation
[Name and title of chief executive officer]	Kaoru Ino, Representative Director, President, and CEO
[Name and title of chief financial officer]	Shuji Furuta, Director, Managing Executive Officer, CFO, and Head of Finance and Accounting Unit
[Registered address]	35-58, Sakashita 3-chome, Itabashi-ku, Tokyo, Japan
[Locations where records are available for public inspection]	Corporate headquarters, DIC Corporation (7-20, Nihonbashi 3-chome, Chuo-ku, Tokyo, Japan) Osaka Branch, DIC Corporation (5-19, Kyutaro-machi 3-chome, Chuo-ku, Osaka, Japan) Nagoya Branch, DIC Corporation (7-15, Nishiki 3-chome, Naka-ku, Nagoya, Japan) Tokyo Stock Exchange (2-1, Nihonbashi Kabuto cho, Chuo-ku, Tokyo, Japan)

1. Appropriateness of Statements in the Annual Securities Report

Kaoru Ino, Representative Director, President, and CEO and Shuji Furuta, Director, Managing Executive Officer, CFO, and Head of Finance and Accounting Unit, confirmed that the contents of our company's annual securities report for the 124th Business Term (from January 1, 2021 to December 31, 2021) were stated appropriately in accordance with the Financial Instruments and Exchange Act and Related Regulations.

2. Special Notes

Not applicable.

[Cover]

Document filed	Management's Report on Internal Control
Applicable law	Article 24-4 -4, paragraph 1 of the Financial Instruments and Exchange Act of Japan
Filed with	Director, Kanto Local Finance Bureau
Filing date	March 29, 2022
Company name	DIC Kabushiki Kaisha
Company name in English	DIC Corporation
Name and title of chief executive officer	Kaoru Ino, Representative Director, President, and CEO
Name and title of chief financial officer	Shuji Furuta, Director, Managing Executive Officer, CFO, and Head of Finance and Accounting Unit
Registered address	35-58, Sakashita 3-chome, Itabashi-ku, Tokyo, Japan
Locations where records are available for public inspection	Corporate headquarters, DIC Corporation (7-20, Nihonbashi 3-chome, Chuo-ku, Tokyo, Japan) Osaka Branch, DIC Corporation (5-19, Kyutaro-machi 3-chome, Chuo-ku, Osaka, Japan) Nagoya Branch, DIC Corporation (7-15, Nishiki 3-chome, Naka-ku, Nagoya, Japan) Tokyo Stock Exchange (2-1, Nihonbashi Kabuto cho, Chuo-ku, Tokyo, Japan)

#### 1. Matters relating to basic framework for internal controls over financial reporting

Kaoru Ino, President and CEO, and Shuji Furuta, Director, Managing Executive Officer, CFO, and Head of Finance and Accounting Unit, are responsible for designing and operating effective internal controls over the Company's financial reporting and have done so in accordance with the basic framework for internal controls over financial reporting set forth in "the Business Accounting Council's Opinions Titled on the Setting of Standards and Practice Standards for Management Assessment and Audit Concerning Internal Control over Financial Reporting."

The purpose of internal controls is to achieve the objectives thereof to a reasonable extent through the organic combination and functioning of such controls' basic individual elements. Accordingly, there is a possibility that internal controls over financial reporting may not completely prevent or detect misstatements.

#### 2. Matters relating to assessment scope, date, and procedures

The assessment of internal controls over financial reporting was performed as of December 31, 2021, which is the final day of the fiscal year. This assessment was conducted in accordance with relevant standards generally accepted in Japan.

The Company began this process by evaluating internal controls seen as possibly having a material impact on its overall consolidated financial reporting ("company-level controls"), the results of which were used to select business processes for assessment. The Company then analyzed these business processes to identify key controls likely to materially impact the reliability of its financial reporting and assessed the design and operation thereof. This enabled the Company to accurately assess the effectiveness of these internal controls.

The Company determined the necessary scope of its assessment of internal controls over financial reporting from the perspective of the materiality of potential impact, that is, the degree to which such controls may affect the reliability of its own financial reporting, as well as that of its consolidated subsidiaries and equity-method affiliates. Materiality was established by taking into account both qualitative and quantitative impact. Based on the results of its assessment of company-level controls, the Company rationally determined the scope of evaluation for process-level controls. Those consolidated subsidiaries and equity-method affiliates deemed to have an insignificant qualitative and/or quantitative impact on financial reporting were not included in the scope of assessment of company-level internal controls.

Business units whose net sales reached approximately two-thirds of consolidated net sales for previous year were selected as "significant business units". The selection took into account changes in the scope of consolidation in the fiscal year ended December 31, 2021, as well as financial and qualitative risks. The assessment at significant business units encompassed business processes relevant to net sales, accounts receivable-trade, accounts payable-trade, inventories, and manufacturing facilities. In addition, regardless of the selection of significant business units, certain business processes related to a high likelihood of leading to material misstatement, and/or key accounts involving estimates and management's judgement were also identified as being highly material and were included in the scope of assessment.

#### 3. Results of the Assessment

Based on the above assessment, the Company concluded that as of December 31, 2021, the Company's internal controls over financial reporting were effective.

#### 4 Supplementary Notes

Not applicable.

#### 5 Special Notes

Not applicable.