Color & Comfort

DIC Report 2017

Financial Section　Year ended December 31, 2016

DIC Corporation

One of the world's leading diversified chemicals companies, DIC Corporation is also the core of the DIC Group, a multinational organization with operations in more than 60 countries and territories worldwide. Established in 1908 as a manufacturer of printing inks, DIC has capitalized on its extensive technologies, know-how and experience in the years since to build a broad business portfolio of materials and finished products, enabling it to provide innovative solutions to customers in diverse industries and transforming it into a global powerhouse in its key fields of endeavor.

Now in its second century in business, DIC is redoubling its efforts to develop and market innovative, high-performance products that respond to the needs of customers in markets around the world, in line with its "Color & Comfort by Chemistry" vision. A responsible corporate citizen, DIC is also committed to helping realize environmental and social sustainability.

The DIC WAY

Mission
Through constant innovation, the DIC Group strives to create enhanced value and to contribute to sustainable development for its customers and society.

Vision
Color & Comfort by Chemistry

Spirit

Drive
The force that propels our employees to think and take action

Integrity
Maintaining a moral attitude, and facing matters head-on with reason and a sense of responsibility

Dedication
Having a sense of ownership and ambition, and taking a passionate approach to the tasks at hand

Collaboration
Working to resolve matters by rallying the collective power of the global DIC Group, while respecting the individuality and diversity of each and every one of our employees

Harmony
Fulfilling our social responsibility as good corporate citizens, and always remaining conscious of compliance issues

Contents

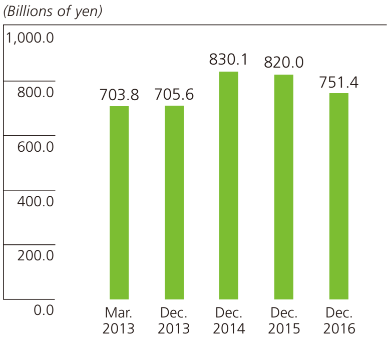
1 Consolidated Six-Year Summary

DIC Corporation and Consolidated Subsidiaries
Years ended December 31, 2016 to 2013, and years ended March 31, 2013 to 2012

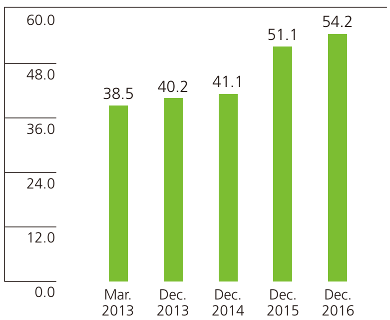
	Millions of yen, except for per share information						Thousands of U.S. dollars, except for per share information (Note 7)
	Dec. 2016	Dec. 2015	Dec. 2014	Dec. 2013	Mar. 2013	Mar. 2012	**Dec. 2016**
Net sales	**¥751,438**	¥819,999	¥830,078	¥705,647	¥703,781	¥734,276	**$6,422,547**
Percent increase (decrease) (Note 4)	**(8.4)%**	(1.2)%	—%	—%	(4.2)%	(5.7)%	**(8.4)%**
Operating income	**54,182**	51,068	41,076	40,181	38,484	34,960	**463,094**
Net income attributable to owners of the parent	**34,767**	37,394	25,194	26,771	19,064	18,158	**297,154**
Equity (Note 3)	**278,535**	262,467	249,749	195,218	136,921	101,911	**2,380,641**
Total assets	**764,828**	778,857	803,703	761,690	692,991	675,067	**6,536,991**
Equity per share (Notes 1 and 5)	**¥2,938.12**	¥2,768.41	¥259.63	¥213.13	¥149.48	¥111.08	**$25.11**
Earnings per share (basic) (Notes 2 and 5)	**366.72**	389.40	26.78	29.23	20.80	19.79	**3.13**
Cash dividends per share applicable to the period (Note 6)	**64.00**	8.00	6.00	6.00	6.00	4.00	**0.55**
Equity ratio to total assets	**36.4%**	33.7%	31.1%	25.6%	19.8%	15.1%	**36.4%**
ROE (return on equity)	**12.9%**	14.6%	11.3%	16.1%	16.0%	17.3%	**12.9%**
Number of employees	**20,481**	20,264	20,411	20,034	20,273	20,455	**20,481**

Notes: 1. The computation of equity per share has been based on the number of shares issued as of the balance sheet date.
2. The computation of earnings per share has been based on the weighted-average number of shares issued during each fiscal year.
3. Equity comprises "Total shareholders' equity" and "Total accumulated other comprehensive income."
4. In order to align the fiscal year-end with that of its consolidated subsidiaries overseas, effective from fiscal year 2013, DIC Corporation changed its fiscal year-end from March 31 to December 31. As a result, the fiscal year ended December 31, 2013, was a transitional irregular nine-month period, comprising the nine months from April to December for DIC Corporation and its subsidiaries whose fiscal year-end was previously March 31 and the 12 months from January to December for its subsidiaries whose fiscal year-end is December 31. Therefore, the percent increases (decreases) for the fiscal years ended December 31, 2013 and 2014, are not given.
5. The Company implemented a consolidation of shares of common stock by a factor of 10 to 1 with July 1, 2016, as the effective date. Earnings per share (basic) and equity per share are calculated respectively based on the assumption that the consolidation had been implemented at the beginning of the fiscal year ended December 31, 2015.
6. The Company implemented the consolidation of shares of common stock by a factor of 10 to 1 with July 1, 2016, as the effective date. Cash dividends per share applicable to the period for the fiscal year ended December 31, 2016, comprises interim dividends of ¥4.00 (before the consolidation) and year-end dividends of ¥60.00 (after the consolidation). If the consolidation had been taken into consideration, cash dividends per share applicable to the period for the fiscal year ended December 31, 2016, would be ¥100.00.
7. Yen amounts have been translated, for readers' convenience only, at the rate of ¥117 to US$1, the approximate rate of exchange at December 31, 2016.

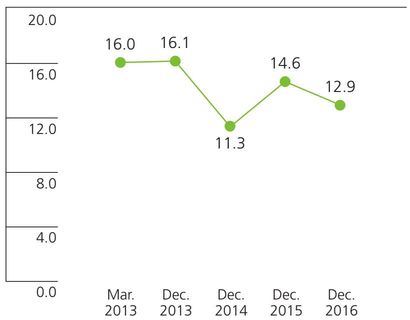
Net Sales
(Billions of yen)



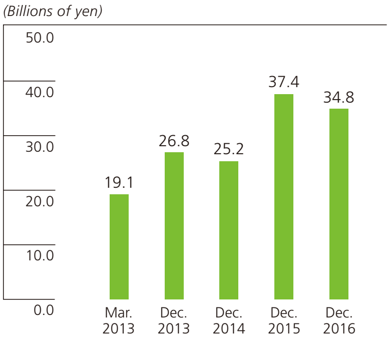
Operating Income
(Billions of yen)



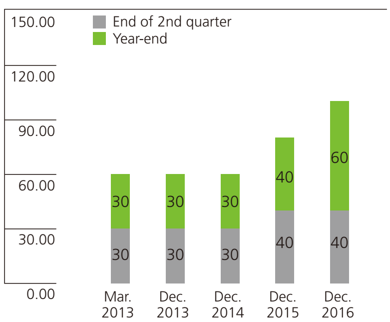
ROE
(%)



Net Income Attributable to Owners of the Parent
(Billions of yen)

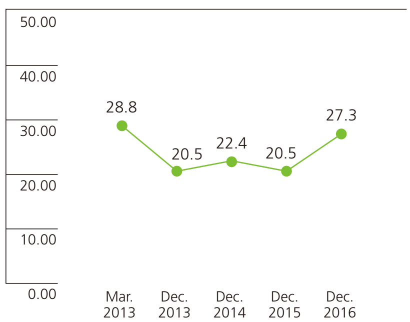


Cash Dividends
(Yen)



* These figures have been adjusted to account for the impact of a consolidation of shares of common stock by a factor of 10 to 1 with July 1, 2016, as the effective date.

Dividend Payout Ratio
(%)



This document presents consolidated results for fiscal year 2016, comprising the accounts for the year ended December 31, 2016, of DIC and its domestic and overseas subsidiaries.

Operating Results

In fiscal year 2016, ended December 31, 2016, the economies of North America and Europe continued to see moderate recovery. In Asia, a revival was seen in the People's Republic of China (PRC) and Southeast Asia. Conditions in India remained on a gentle upswing. Japan's economy, while still fragile, showed signs of a gradual rally.

In this environment, consolidated net sales declined 8.4%, to ¥751.4 billion, notwithstanding firm shipments, owing to the appreciation of the yen against other major currencies, among others. Operating income advanced 6.1%, to ¥54.2 billion. Factors behind this result included increased sales of high-value-added products and cost reductions. Ordinary income rose 13.9%, to ¥55.8 billion, bolstered by an improved financial position and other factors. Both operating income and ordinary income results represented record highs. Net income attributable to owners of the parent decreased 7.0%, to ¥34.8 billion, with contributing factors including a decline in gain on sales of non-current assets.

	Billions of yen			
	FY2016	FY2015	Change (%)	Change calculated in local currency (%)
Net sales	¥751.4	¥820.0	(8.4)%	(0.3)%
Operating income	54.2	51.1	6.1	14.7
Ordinary income	55.8	49.0	13.9	—
Net income attributable to owners of the parent	34.8	37.4	(7.0)	—

	Yen	
	FY2016	FY2015
Average exchange rate (¥/US$)	¥109.96	¥120.85

Segment Results

Segment results in key markets are as follows. Year-on-year percentage changes in squared parentheses represent increases or decreases excluding the impact of foreign currency fluctuations. Interregional transactions within the Printing Inks segment are included. Accordingly, the aggregates of regional net sales and operating income figures for the Printing Inks segment differ from the figures presented in the Notes to the Consolidated Financial Statements.

Printing Inks

Japan

Sales of packaging inks benefited from healthy shipments. However, overall sales in Japan slipped, reflecting decreased demand for publishing inks and news inks and the erosion of sales prices across the board. Operating income soared, underpinned by the aforementioned shipments, as well as by the positive impact of cost reductions and an improved product mix, among others.

The Americas and Europe

Although sales of packaging inks rose, sales in Europe and North America were down, owing to waning demand for publishing inks and news inks. Sales in Central and South America advanced, buoyed by brisk shipments of packaging inks and publishing inks. As a consequence of various factors, including these results, and of the impact of foreign currency fluctuations, overall sales in the Americas and Europe declined. Foreign currency fluctuations also hindered operating income, which decreased despite being level in local currency terms.

Asia and Oceania

While shipments of packaging inks were solid, flagging sales prices in all product categories pushed down sales in the PRC. A sharp increase in sales of publishing inks and packaging inks underpinned higher sales in Southeast Asia. In Oceania, sales rose, bolstered by robust shipments of publishing inks and packaging inks. Sales in India slipped, with contributing factors including falling sales of news inks. For these and other reasons, overall sales in Asia and Oceania decreased, hampered by foreign currency fluctuations. Operating income was up in local currency terms, bolstered by higher sales of high-value-added products, cost reductions and other factors, but down after translation, reflecting foreign currency fluctuations.

		Billions of yen		
		FY2016	Change (%)	Change calculated in local currency (%)
Japan	Net sales	¥ 79.8	(1.2)%	—
	Operating income	5.1	62.5	—
The Americas and Europe	Net sales	232.7	(14.8)	(1.1)%
	Operating income	8.4	(19.7)	(0.0)
Asia and Oceania	Net sales	61.6	(12.6)	(0.3)
	Operating income	4.8	(8.9)	3.5

Fine Chemicals

In pigments, sales in Japan were lifted by brisk shipments of functional pigments, including those for color filters, while sales in the Americas and Europe decreased, notwithstanding a substantial increase in sales of pigments for cosmetics, as a consequence of foreign currency fluctuations. Sales of thin-film transistor (TFT) liquid crystals (LCs) rose substantially, reflecting higher shipments from a new production facility in the PRC and the start of full-scale shipments from Japan, which had been delayed. While these factors boosted results in local currency terms, segment sales were down after translation, owing to foreign currency fluctuations. Segment operating income advanced substantially, underpinned by an improved product mix, among others.

	Billions of yen		
	FY2016	Change (%)	Change calculated in local currency (%)
Net sales	¥128.2	(5.4)%	2.2%
Operating income	14.4	10.0	16.8

Polymers

Despite generally firm shipments, sales in Japan declined as a result of falling sales prices. Sales overseas were also down, hindered by the deterioration of sales prices and by foreign currency fluctuations, although sales to customers in the electrical and electronics industries were solid. For these and other reasons, segment sales decreased. Cost reductions and other factors sparked a sharp increase in segment operating income.

	Billions of yen		
	FY2016	Change (%)	Change calculated in local currency (%)
Net sales	¥180.9	(7.0)%	(3.0)%
Operating income	19.6	23.0	29.6

Compounds

Sales of polyphenylene sulfide (PPS) compounds advanced, as shipments were healthy both in Japan and overseas. Thanks to robust shipments overseas, sales of jet inks were up overall, despite the negative impact of foreign currency fluctuations on exports, which hurt domestic sales. Although these factors led to an increase in local currency terms, segment sales decreased after translation, owing to foreign currency fluctuations. Segment operating income declined, reflecting segment sales results, among others.

	Billions of yen		
	FY2016	Change (%)	Change calculated in local currency (%)
Net sales	¥61.1	(3.9)%	3.5%
Operating income	5.0	(13.3)	(6.1)

Application Materials

Persistently robust shipments sustained an increase in sales of hollow-fiber membrane modules. Nonetheless, segment sales declined, despite being level in local currency terms. Reasons for this result included dwindling sales of industrial adhesive tapes, which were hindered by sluggish demand for products used in smartphones. Segment operating income fell, with contributing factors including the aforementioned sales results.

	Billions of yen		
	FY2016	Change (%)	Change calculated in local currency (%)
Net sales	¥55.7	(3.2)%	(0.5)%
Operating income	1.9	(11.1)	(9.4)

Analysis of Cash Flows

Cash and cash equivalents as of December 31, 2016, totaled ¥16.7 billion, an increase of ¥1.6 billion from the previous fiscal year-end.

Operating Activities

Net cash provided by operating activities amounted to ¥62.5 billion, up from ¥29.1 billion provided by such activities in fiscal year 2015. Income before income taxes and non-controlling interests was ¥49.9 billion, while the adjustment for depreciation and amortization amounted to ¥32.4 billion. Income taxes paid totaled ¥15.8 billion, while working capital increased ¥4.8 billion.

Investing Activities

Net cash used in investing activities came to ¥32.2 billion, up from ¥10.0 billion used in such activities in the previous fiscal year. A total of ¥31.3 billion was applied to capital expenditure, comprising the purchase of property, plant and equipment and the purchase of intangible assets, while ¥971 million was used for the purchase of investment securities. Proceeds from subsidy income totaled ¥842 million.

Financing Activities

Net cash used in financing activities amounted to ¥26.9 billion, compared with ¥24.8 billion used in such activities in fiscal year 2015. The net total of funds applied to the repayment of interest-bearing debt was ¥17.1 billion, while cash dividends paid totaled ¥7.6 billion.

Consolidated Balance Sheet

DIC Corporation and Consolidated Subsidiaries
December 31, 2016

Assets

	Millions of yen	
	2016	2015
Current assets:		
Cash and deposits (Notes 6 and 19)	¥ 17,241	¥ 15,363
Notes and accounts receivable—trade (Notes 11, 19 and 20)	215,369	221,006
Merchandise and finished goods (Note 11)	82,611	87,947
Work in process (Note 11)	9,461	9,369
Raw materials and supplies (Note 11)	53,605	52,245
Deferred tax assets (Note 16)	9,915	11,435
Other (Note 19)	21,374	21,947
Allowance for doubtful accounts	(10,839)	(10,654)
Total current assets	398,737	408,658
Non-current assets:		
Property, plant and equipment (Notes 9, 10 and 11):		
Buildings and structures	92,092	95,879
Machinery, equipment and vehicles	66,342	70,226
Tools, furniture and fixtures	10,142	9,605
Land	50,169	50,775
Construction in progress	7,915	6,660
Total property, plant and equipment	226,660	233,145
Intangible assets (Note 10):		
Goodwill	501	906
Software	4,878	6,470
Other	3,563	3,880
Total intangible assets	8,942	11,256
Investments and other assets:		
Investment securities (Notes 7, 8 and 19)	41,007	37,075
Deferred tax assets (Note 16)	36,996	38,939
Net defined benefit asset (Note 12)	28,074	24,885
Other (Notes 7 and 19)	25,899	25,296
Allowance for doubtful accounts	(1,487)	(397)
Total investments and other assets	130,489	125,798
Total non-current assets	366,091	370,199
Total assets	¥764,828	¥778,857

See notes to the consolidated financial statements.

Liabilities and Net Assets

	Millions of yen 2016	2015
Current liabilities:		
Notes and accounts payable—trade (Notes 19 and 20)	¥ 94,392	¥ 95,569
Short-term loans payable (Notes 11 and 19)	52,744	20,632
Current portion of long-term loans payable (Notes 11, 19 and 20)	43,647	61,630
Commercial papers (Notes 11 and 19)	—	4,000
Current portion of bonds (Notes 11, 19 and 20)	—	8,000
Lease obligations (Notes 11 and 19)	584	572
Income taxes payable (Notes 16 and 19)	4,153	8,347
Deferred tax liabilities (Note 16)	322	295
Provision for bonuses	7,050	6,914
Other (Note 19)	62,447	65,321
Total current liabilities	265,339	271,280
Non-current liabilities:		
Bonds payable (Notes 11, 19 and 20)	30,000	20,000
Long-term loans payable (Notes 11, 19 and 20)	109,918	139,900
Lease obligations (Notes 11 and 19)	4,394	4,718
Deferred tax liabilities (Note 16)	9,598	8,555
Net defined benefit liability (Note 12)	28,072	32,833
Asset retirement obligations	1,334	1,213
Other	9,156	10,501
Total non-current liabilities	192,472	217,720
Total liabilities	457,811	489,000
Net assets:		
Shareholders' equity (Notes 13 and 23):		
Capital stock (Note 14)	96,557	96,557
Capital surplus	94,094	94,161
Retained earnings	159,541	137,071
Treasury shares (Note 15)	(1,213)	(5,911)
Total shareholders' equity	348,979	321,878
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	5,248	3,688
Deferred gains or losses on hedges	(187)	(73)
Foreign currency translation adjustment	(48,626)	(29,925)
Remeasurements of defined benefit plans (Note 12)	(26,879)	(33,101)
Total accumulated other comprehensive income	(70,444)	(59,411)
Non-controlling interests	28,482	27,390
Total net assets	307,017	289,857
Total liabilities and net assets	¥764,828	¥778,857

7 Consolidated Statement of Income

DIC Corporation and Consolidated Subsidiaries
Year ended December 31, 2016

	Millions of yen	
	2016	2015
Net sales	¥751,438	¥819,999
Cost of sales	571,895	635,106
Gross profit	179,543	184,893
Selling, general and administrative expenses (Note 17)	125,361	133,825
Operating income	54,182	51,068
Non-operating income:		
Interest income	575	1,198
Dividends income	401	365
Equity in earnings of affiliates	3,266	2,735
Foreign exchange gains	607	—
Other	2,182	2,383
Total non-operating income	7,031	6,681
Non-operating expenses:		
Interest expenses	3,227	5,485
Foreign exchange losses	—	567
Other	2,189	2,702
Total non-operating expenses	5,416	8,754
Ordinary income	55,797	48,995
Extraordinary income:		
State subsidy	842	255
Gain on bargain purchase	78	—
Gain on sales of non-current assets	—	14,229
Gain on sales of subsidiaries and affiliates securities	—	2,723
Compensation income	—	704
Gain on sales of investment securities	—	555
Total extraordinary income	920	18,466
Extraordinary loss:		
Loss on disposal of non-current assets	4,412	3,550
Severance costs	1,416	3,787
Provision of allowance for doubtful accounts	553	—
Loss on disaster	440	—
Loss on valuation of investments in capital	—	716
Impairment loss (Note 10)	—	674
Loss on reduction of non-current assets	—	168
Total extraordinary loss	6,821	8,895
Income before income taxes and non-controlling interests	49,896	58,566
Income taxes (Note 16):		
Income taxes—current	11,565	14,351
Income taxes—deferred	767	4,634
Total income taxes	12,332	18,985
Net income	37,564	39,581
Net income attributable to non-controlling interests	2,797	2,187
Net income attributable to owners of the parent	¥ 34,767	¥ 37,394

	Yen	
Earnings per share (Note 2):		
Basic	¥ 366.72	¥ 389.40
Diluted	—	—
Weighted-average number of shares issued during the period, excluding treasury shares (in thousands)	94,805	96,030
Cash dividends per share applicable to the period (Note 2)	¥ 64.00	¥ 8.00

See notes to the consolidated financial statements.

Consolidated Statement of Comprehensive Income

DIC Corporation and Consolidated Subsidiaries
Year ended December 31, 2016

	Millions of yen	
	2016	2015
Net income	¥ 37,564	¥ 39,581
Other comprehensive income:		
Valuation difference on available-for-sale securities	1,609	845
Deferred gains or losses on hedges	(112)	102
Foreign currency translation adjustment	(18,179)	(14,523)
Remeasurements of defined benefit plans, net of tax (Note 12)	6,266	3,560
Share of other comprehensive income of associates accounted for using equity method	(965)	(1,309)
Total other comprehensive income (Note 22)	¥(11,381)	¥(11,325)
Comprehensive income	¥ 26,183	¥ 28,256
Comprehensive income attributable to:		
Comprehensive income attributable to owners of the parent	¥ 23,734	¥ 26,782
Comprehensive income attributable to non-controlling interests	2,449	1,474

See notes to the consolidated financial statements.

Consolidated Statement of Changes in Net Assets

DIC Corporation and Consolidated Subsidiaries
Year ended December 31, 2016

Millions of yen

	Shareholders' equity					
	Issued number of common stock (thousands)	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at January 1, 2015	965,372	¥96,557	¥94,161	¥108,726	¥ (896)	¥298,548
Cumulative effects of changes in accounting policies				(2,316)		(2,316)
Restated balance	965,372	96,557	94,161	106,410	(896)	296,232
Dividends from surplus, ¥7.00 per share (Note 13)				(6,733)		(6,733)
Net income attributable to owners of the parent				37,394		37,394
Purchase of treasury shares—13,849,737 shares					(5,015)	(5,015)
Net changes of items other than shareholders' equity (Notes 8 and 13)						
Balance at December 31, 2015	965,372	96,557	94,161	137,071	(5,911)	321,878
Dividends from surplus, ¥8.00 per share (Note 13)				**(7,585)**		**(7,585)**
Net income attributable to owners of the parent				**34,767**		**34,767**
Purchase of treasury shares—19,473 shares					**(19)**	**(19)**
Retirement of treasury shares (Notes 14 and 15)	**(13,803)**		**(5)**	**(4,712)**	**4,717**	**—**
Consolidation of shares (Notes 14 and 15)	**(856,412)**					**—**
Change in treasury shares of parent arising from transactions with non-controlling shareholders			**(62)**			**(62)**
Net changes of items other than shareholders' equity (Notes 8 and 13)						
Balance at December 31, 2016	**95,157**	**¥96,557**	**¥94,094**	**¥159,541**	**¥(1,213)**	**¥348,979**

Millions of yen

	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at January 1, 2015	¥2,914	¥(178)	¥(14,817)	¥(36,718)	¥(48,799)	¥26,974	¥276,723
Cumulative effects of changes in accounting policies						(99)	(2,415)
Restated balance	2,914	(178)	(14,817)	(36,718)	(48,799)	26,875	274,308
Dividends from surplus, ¥7.00 per share (Note 13)							(6,733)
Net income attributable to owners of the parent							37,394
Purchase of treasury shares—13,849,737 shares							(5,015)
Net changes of items other than shareholders' equity (Notes 8 and 13)	774	105	(15,108)	3,617	(10,612)	515	(10,097)
Balance at December 31, 2015	3,688	(73)	(29,925)	(33,101)	(59,411)	27,390	289,857
Dividends from surplus, ¥8.00 per share (Note 13)							**(7,585)**
Net income attributable to owners of the parent							**34,767**
Purchase of treasury shares—19,473 shares							**(19)**
Retirement of treasury shares (Notes 14 and 15)							**—**
Consolidation of shares (Notes 14 and 15)							**—**
Change in treasury shares of parent arising from transactions with non-controlling shareholders							**(62)**
Net changes of items other than shareholders' equity (Notes 8 and 13)	**1,560**	**(114)**	**(18,701)**	**6,222**	**(11,033)**	**1,092**	**(9,941)**
Balance at December 31, 2016	**¥5,248**	**¥(187)**	**¥(48,626)**	**¥(26,879)**	**¥(70,444)**	**¥28,482**	**¥307,017**

See notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

DIC Corporation and Consolidated Subsidiaries
Year ended December 31, 2016

	Millions of yen	
	2016	2015
Net cash provided by (used in) operating activities:		
Income before income taxes and non-controlling interests	¥ 49,896	¥ 58,566
Adjustments for:		
Depreciation and amortization	32,444	32,886
Amortization of goodwill	373	477
Increase (decrease) in allowance for doubtful accounts	1,540	583
Increase (decrease) in provision for bonuses	149	383
Interest and dividends income	(976)	(1,563)
Equity in (earnings) losses of affiliates	(3,266)	(2,735)
Interest expenses	3,227	5,485
Loss (gain) on sales and retirement of non-current assets	4,412	(10,679)
Impairment loss	—	674
Loss (gain) on sales of subsidiaries and affiliates securities	—	(2,723)
Loss (gain) on sales of investment securities	—	(555)
Loss on valuation of investments in capital	—	716
State subsidy	(842)	(255)
Decrease (increase) in notes and accounts receivable—trade	(2,150)	(15,878)
Decrease (increase) in inventories	(828)	1,940
Increase (decrease) in notes and accounts payable—trade	(1,810)	(12,383)
Other, net	(2,775)	(12,844)
Subtotal	79,394	42,095
Interest and dividends income received	2,130	2,731
Interest expenses paid	(3,254)	(5,724)
Income taxes paid	(15,766)	(9,989)
Net cash provided by (used in) operating activities	62,504	29,113
Net cash provided by (used in) investing activities:		
Payments into time deposits	(6,505)	(3,297)
Proceeds from withdrawal of time deposits	6,219	3,387
Purchase of property, plant and equipment	(30,310)	(31,247)
Proceeds from sales of property, plant and equipment	455	14,670
Purchase of intangible assets	(969)	(841)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(114)	(1,873)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	—	2,100
Purchase of subsidiaries and affiliates securities	—	(49)
Proceeds from sales of subsidiaries and affiliates securities	—	6,356
Purchase of investment securities	(971)	(48)
Proceeds from sales and redemption of investment securities	376	642
Payments for transfer of business	(275)	—
Proceeds from subsidy income	842	209
Other, net	(950)	18
Net cash provided by (used in) investing activities	(32,202)	(9,973)
Net cash provided by (used in) financing activities:		
Net increase (decrease) in short-term loans payable	30,364	(8,847)
Increase (decrease) in commercial papers	(4,000)	4,000
Proceeds from long-term loans payable	30,069	62,440
Repayment of long-term loans payable	(75,576)	(79,137)
Proceeds from issuance of bonds	10,000	20,000
Redemption of bonds	(8,000)	(10,000)
Cash dividends paid	(7,585)	(6,733)
Cash dividends paid to non-controlling interests	(1,047)	(987)
Net decrease (increase) in treasury shares	(19)	(5,015)
Other, net	(1,058)	(522)
Net cash provided by (used in) financing activities	(26,852)	(24,801)
Effect of exchange rate change on cash and cash equivalents	(1,892)	4,381
Net increase (decrease) in cash and cash equivalents	1,558	(1,280)
Cash and cash equivalents at beginning of the period (Note 6)	15,113	16,393
Cash and cash equivalents at end of the period (Note 6)	¥ 16,671	¥ 15,113

See notes to the consolidated financial statements.

DIC Corporation and Consolidated Subsidiaries
Year ended December 31, 2016

Note 1:

Basis of Presenting Financial Statements

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated financial statements are stated in Japanese yen, the currency of the country in which DIC Corporation (the "Company") is incorporated.

Note 2:

Summary of Significant Accounting Policies

Consolidated financial statements

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated and those companies over which the Company has the ability to exercise significant influence are accounted for by the equity method.

The consolidated financial statements include the accounts of the Company and its significant subsidiaries: Sun Chemical Group Coöperatief U.A., DIC (China) Co., Ltd., DIC Asia Pacific Pte Ltd, SEIKO PMC CORPORATION, DIC Investments Japan, LLC., DIC Graphics Corporation and 144 other companies in the fiscal year ended December 31, 2016 (146 other companies in the fiscal year ended December 31, 2015). All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Company and its consolidated subsidiaries (the "Group") is eliminated.

Investments in 23 affiliates in the fiscal year ended December 31, 2016 (22 in the fiscal year ended December 31, 2015) are accounted for by the equity method.

Accounting period of consolidated subsidiaries

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

Cash and cash equivalents

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.

Investment securities

Investment securities are classified and accounted for, depending on management's intent, into available-for-sale 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. Available-for-sale securities whose fair values are not readily available are carried at cost. The cost of securities sold is determined based on the moving-average method.

Allowance for doubtful accounts

Allowance for doubtful accounts of the Company and its domestic consolidated subsidiaries is provided based on historical experience for normal receivables and on an estimate of collectibility of receivables from companies in financial difficulty.

Allowance for doubtful accounts of foreign consolidated subsidiaries is provided based on an estimate of collectibility of receivables.

Inventories

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

Property, plant and equipment (excluding leased assets)

Property, plant and equipment are carried at cost. Significant renewals and additions are capitalized; maintenance and repairs, and minor renewals and improvements, are charged to income as incurred.

Depreciation of buildings (other than facilities attached to buildings) of the Company and its domestic consolidated subsidiaries is calculated principally by the straight-line method. Besides, depreciation of facilities attached to buildings and structures acquired on or after April 1, 2016 is also calculated by the straight-line method. Other property, plant and equipment are calculated by the declining-balance method.

Depreciation of property, plant and equipment of foreign consolidated subsidiaries is calculated principally by the straight-line method. The range of useful lives is principally from 8 to 50 years for buildings and structures and from 3 to 11 years for machinery, equipment and vehicles.

Intangible assets (excluding leased assets)

Intangible assets are carried at cost less accumulated amortization, and are amortized by the straight-line method. Goodwill is amortized by the straight-line method over a reasonable period not exceeding 20 years.

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.

Foreign consolidated subsidiaries account for lease transactions in accordance with either the accounting principles generally accepted in the United States ("U.S. GAAP") or IFRS.

Retirement and pension plans

The Company and its domestic consolidated subsidiaries account for net defined benefit asset/liability 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 domestic consolidated subsidiaries amortize actuarial gain and loss in the succeeding years primarily by the straight-line method over stated years that do not exceed the average remaining service period of the eligible employees (15 to 16 years). Past service costs are amortized in the accounting periods when they accrue.

Foreign consolidated subsidiaries are accounted for in accordance with either U.S. GAAP or IFRS. Actuarial gains and losses are amortized in the succeeding year primarily by the straight-line method over stated years that do not exceed the average remaining service period of the eligible employees (10 to 28 years). Past service costs are amortized over 4 to 26 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.

Asset retirement obligations

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period in which the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

Income taxes

The provision for income taxes is computed based on the pretax income (loss) included in the consolidated statement of income.

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

Research and development costs

Research and development costs are charged to income as incurred.

Basis of translation of financial statements of foreign consolidated subsidiaries

The financial statements of foreign consolidated subsidiaries included in the consolidated financial statements are translated into Japanese yen based on the following procedures:

(1) Assets and liabilities of foreign consolidated subsidiaries are translated into Japanese yen at the exchange rates as of the balance sheet date.

(2) Income and expenses are translated into Japanese yen at the average rate during the year.

The differences of translation are included in foreign currency translation adjustment and non-controlling interests, which are presented as separate components of net assets.

Translation of foreign currency account

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 if hedge accounting is not applied.

Derivatives and hedging activities

To hedge risks associated with the fluctuations of exchange rates, interest rates and commodity prices, the Group uses foreign currency forward contracts, currency options and swaps, interest rate swaps, and commodity swaps. To hedge a part of the risks associated with the fluctuations of exchange rates for investments in foreign entities, the Company uses loans denominated in foreign currencies. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: 1) all derivatives are recognized as either assets or liabilities and measured at fair value, with gains or losses recognized in the consolidated statement of income and 2) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Receivables and payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting. Gains and losses related to qualifying hedges of firm commitments or anticipated transactions are deferred and recognized in income when the hedged transaction occurs. 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 swaps will be recognized in interest expenses or interest income.

Per share information

Earnings per share (basic) is computed by dividing net income attributable to owners of the parent available to common shareholders by the weighted-average number of shares issued for the period, retroactively adjusted for stock splits.

The Company implemented the consolidation of shares of common stock by a factor of 10 to 1, with July 1, 2016, as the effective date. Earnings per share (basic) is calculated based on the assumption that the consolidation had been implemented at the beginning of the fiscal year ended December 31, 2015.

Earnings per share (diluted) reflects the potential dilution that could occur if securities were exercised or converted into common stock. Earnings per share (diluted) assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

Cash dividends per share applicable to the period for the fiscal year ended December 31, 2016, comprises interim dividends of ¥4.00 (before the consolidation) and year-end dividends of ¥60.00 (after the consolidation). If the consolidation had been taken into consideration, cash dividends per share applicable to the period for the fiscal year ended December 31, 2016, would be ¥100.00.

Note 3: Accounting Changes

Application of Accounting Standard for Business Combinations and other regulations

Effective from the beginning of the fiscal year ended December 31, 2016, the Company has applied "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013), "Accounting

Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013), etc. As a result, the method of recording the amount of difference caused by changes in the Company's ownership interests in subsidiaries in the case of subsidiaries under ongoing control of the Company was changed to one in which it is recorded as capital surplus, and the method of recording acquisition-related costs was changed to one in which they are recognized as expenses for the fiscal year in which they are incurred. Furthermore, for business combinations carried out on or after the beginning of the fiscal year ended December 31, 2016, the accounting method was changed to one in which the reviewed acquisition cost allocation resulting from the finalization of the provisional accounting treatment is reflected in the consolidated financial statements for the fiscal year to which the date of business combination belongs. In addition, the presentation method for "Net income" and other related items was changed, and the presentation of "Minority interests" was changed to "Non-controlling interests."

Application of "Accounting Standard for Business Combinations," etc., is in line with the transitional measures provided for in paragraph 58-2 (4) of "Accounting Standard for Business Combinations," paragraph 44-5 (4) of "Accounting Standard for Consolidated Financial Statements" and paragraph 57-4 (4) of "Accounting Standard for Business Divestitures." The Company is applying the standards prospectively from the beginning of the fiscal year ended December 31, 2016.

In addition, in the consolidated statement of cash flows for the fiscal year ended December 31, 2016, the Company adopted the method of recording cash flows from the purchase or sales from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation as "Net cash provided by (used in) financing activities." Moreover, the method of recording cash flows relating to costs arising from the purchase of investments in subsidiaries resulting in change in scope of consolidation and costs arising from the purchase or sales from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation as "Net cash provided by (used in) operating activities" was adopted.

As a result, the impact of this change on the consolidated financial statements for the fiscal year ended December 31, 2016 was immaterial.

Application of Practical Solution on a change in depreciation method due to Tax Reform 2016

Following the revision to the Corporation Tax Act, the Company has applied "Practical Solution on a change in depreciation method due to Tax Reform 2016" (ASBJ Practical Issues Task Force No. 32, June 17, 2016) from the second quarter ended June 30, 2016, and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

As a result, the impact of this change on the consolidated financial statements for the fiscal year ended December 31, 2016 was immaterial.

Note 4:

Changes in Presentation (Consolidated Balance Sheet)

"Long-term loans receivable" of "Investments and other assets," which had previously been separately presented, is included in "Other" from the fiscal year ended December 31, 2016, because its materiality has decreased, and prior period financial statements have been reclassified in accordance with the new presentation.

The balance which is included in "Other" as of December 31, 2015 is ¥110 million.

Note 5:

New Accounting Pronouncement

Implementation Guidance on Recoverability of Deferred Tax Assets

On March 28, 2016, ASBJ issued ASBJ Guidance No. 26, "Implementation Guidance on Recoverability of Deferred Tax Assets."

(1) Overview

When authority for providing practical guidelines on the accounting and auditing treatment of recoverability of deferred tax assets (limited to the portion related to accounting treatment) was transferred from JICPA to ASBJ, ASBJ fundamentally followed the framework of classifications mainly prescribed in JICPA Auditing Standards Board Report No. 66, "Audit Treatment of Judgments with Regard to Recoverability of Deferred Tax Assets." This system classifies companies into five categories and the amount of deferred tax assets to be recorded is estimated in accordance with these classifications. The implementation guidance makes necessary reviews a part of the classification criteria and treatment of the amount of deferred tax assets to be recorded. With regard to the recoverability of deferred tax assets, the implementation guidance prescribes the guidelines to be used when applying accounting standards related to tax-effect accounting (Business Accounting Council).

(Review of the criteria as to the classification and the treatment for the recognition of deferred tax assets)
(i) accounting treatments for entities which are not included in any categories,
(ii) criteria as to the classification of entities in Category 2 and Category 3,
(iii) accounting treatments of unscheduled deductible temporary differences for entities in Category 2,
(iv) accounting treatments for deductible temporary differences for entities in Category 3, which are scheduled to be deductible after five years, and
(v) accounting treatments for entities in Category 4 in the current fiscal year, which are expected to be included in Category 2 or Category 3 in the following year.

(2) Date of adoption

The Company and its domestic consolidated subsidiaries will adopt the revised implementation guidance from the beginning of the fiscal year ending December 31, 2017.

(3) Impact of the adoption of the implementation guidance

The Company is in the process of measuring the effects of applying the revised implementation guidance in future applicable periods.

Note 6:

Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2016 and 2015 include the following:

	Millions of yen	
	2016	2015
Cash and deposits	**¥17,241**	¥15,363
Less: time deposits and short-term investments which mature over three months after the date of acquisition	**(570)**	(250)
Cash and cash equivalents	**¥16,671**	¥15,113

Note 7:

Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates as of December 31, 2016 and 2015 include the following:

	Millions of yen	
	2016	2015
Investments in stock of unconsolidated subsidiaries and affiliates	**¥21,678**	¥20,590
Investments in equity of unconsolidated subsidiaries and affiliates	**1,398**	1,465
Total	**¥23,076**	¥22,055

Note 8:

Investment Securities

The carrying amounts and aggregate fair values of available-for-sale securities at December 31, 2016 and 2015 are as follows:

	Millions of yen			
				2016
	Cost	Unrealized gains	Unrealized losses	Fair value
Available-for-sale securities:				
Stocks	**¥8,190**	**¥7,752**	**¥(54)**	**¥15,888**
Total	**¥8,190**	**¥7,752**	**¥(54)**	**¥15,888**

	Millions of yen			
				2015
	Cost	Unrealized gains	Unrealized losses	Fair value
Available-for-sale securities:				
Stocks	¥8,333	¥5,588	¥(73)	¥13,848
Total	¥8,333	¥5,588	¥(73)	¥13,848

Note 9:

Property, Plant and Equipment

Accumulated depreciation on property, plant and equipment as of December 31, 2016 and 2015 is ¥545,419 million and ¥554,121 million, respectively.

Note 10:

Impairment of Long-Lived Assets

Impairment losses on long-lived assets for the fiscal year ended December 31, 2015 for each asset group is as follows:

			Millions of yen
			2015
Used status	Category of assets	Location	Allocated impairment loss
Factory assets in use	Machineries, software and other	Australia	¥635
Goodwill	Goodwill	Australia	39
Total			¥674

The carrying amount of the factory assets was reduced to its recoverable amount because the recoverable amount is less than the carrying amount. All of the carrying amount of goodwill was also reduced because it became unlikely that the revenue originally expected will be earned.

The book value of factory assets in use has been lowered to the recoverable amount. All of the book value of goodwill has been recognized as impairment loss.

Note 11:

Short-Term Loans Payable and Long-Term Loans Payable

Information with respect to short-term loans payable at December 31, 2016 and 2015 is as follows:

The average interest rate for the fiscal years ended December 31, 2016 and 2015 is 2.43% and 3.07%, respectively, for short-term loans payable, and 0.00% and 0.16%, respectively, for commercial papers.

Bonds payable, long-term loans payable and lease obligations at December 31, 2016 and 2015 comprise the following:

	Millions of yen	
	2016	2015
0.90% Japanese yen notes due 2016	¥ —	¥ 3,000
0.81% Japanese yen notes due 2016	—	5,000
0.53% Japanese yen notes due 2022	**10,000**	10,000
1.00% Japanese yen notes due 2025	**10,000**	10,000
0.95% Japanese yen notes due 2036	**5,000**	—
0.36% Japanese yen notes due 2026	**5,000**	—
Loans due 2017–2024, with an average interest rate of 0.88%	**153,565**	201,530
Lease obligations	**4,978**	5,290
Subtotal	**188,543**	234,820
Less: current portion of long-term loans payable	**(43,647)**	(61,630)
Less: current portion of bonds	—	(8,000)
Less: lease obligations—current	**(584)**	(572)
Total	**¥144,312**	¥164,618

The annual maturities of bonds payable, long-term loans payable and lease obligations for the fiscal years subsequent to December 31, 2016 are as follows:

	Millions of yen
2017	**¥ 44,231**
2018	**28,421**
2019	**44,042**
2020	**19,651**
2021	**9,727**
Thereafter	**42,471**
Total	**¥188,543**

The amounts of assets pledged as collateral and secured borrowings and loans at December 31, 2016 comprise the following:

	Millions of yen
Assets pledged as collateral:	
Notes and accounts receivable—trade	¥3,488
Inventories	1,753
Property, plant and equipment	561
Total	¥5,802

Secured borrowings and loans: None

Note 12: Retirement and Pension Plans

(1) Overview of adopted retirement and pension plans

The Company and a number of 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 contributes certain available-for-sale securities to the employee retirement benefit trust.

(2) Defined benefit pension plans (including multi-employer plan)

Changes in defined benefit obligations

	Millions of yen	
	Domestic plans	Foreign plans
As of January 1, 2016	¥97,958	¥152,302
Service cost	2,222	527
Interest cost	774	5,160
Actuarial gains and losses	(642)	10,467
Benefits paid	(5,038)	(6,549)
Past service cost	—	189
Exchange translation differences	—	(16,191)
Other	—	352
As of December 31, 2016	¥95,274	¥146,257

	Millions of yen	
	Domestic plans	Foreign plans
As of January 1, 2015	¥95,395	¥166,449
Cumulative effects of changes in accounting policies	3,733	—
Restated balance	99,128	166,449
Service cost	2,276	816
Interest cost	782	5,820
Actuarial gains and losses	1,236	(9,389)
Benefits paid	(5,464)	(5,786)
Past service cost	—	29
Exchange translation differences	—	(5,669)
Other	—	32
As of December 31, 2015	¥97,958	¥152,302

Changes in plan assets

	Domestic plans	Foreign plans
		Millions of yen
As of January 1, 2016	¥120,430	¥121,882
Expected return on plan assets	3,033	6,129
Actuarial gains and losses	56	9,544
Contributions by the employer	2,663	1,978
Benefits paid	(4,904)	(6,407)
Exchange translation differences	—	(13,056)
Other	—	185
As of December 31, 2016	¥121,278	¥120,255

	Domestic plans	Foreign plans
		Millions of yen
As of January 1, 2015	¥119,289	¥129,177
Cumulative effects of changes in accounting policies	(17)	—
Restated balance	119,272	129,177
Expected return on plan assets	2,978	7,405
Actuarial gains and losses	(805)	(8,070)
Contributions by the employer	4,368	3,138
Benefits paid	(5,383)	(5,617)
Exchange translation differences	—	(4,176)
Other	—	25
As of December 31, 2015	¥120,430	¥121,882

Reconciliation of defined benefit obligations and plan assets on retirement benefits recognized in the consolidated balance sheet

		Millions of yen
		2016
	Domestic plans	Foreign plans
Funded defined benefit obligations	¥ 94,164	¥ 145,524
Plan assets	(121,278)	(120,255)
Subtotal	(27,114)	25,269
Unfunded defined benefit obligations	1,110	733
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ (26,004)	¥ 26,002
Liabilities (net defined benefit liability)	¥ 2,017	¥ 26,055
Assets (net defined benefit asset)	(28,021)	(53)
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ (26,004)	¥ 26,002

		Millions of yen
		2015
	Domestic plans	Foreign plans
Funded defined benefit obligations	¥ 96,839	¥ 151,839
Plan assets	(120,430)	(121,882)
Subtotal	(23,591)	29,957
Unfunded defined benefit obligations	1,119	463
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ (22,472)	¥ 30,420
Liabilities (net defined benefit liability)	¥ 2,303	¥ 30,530
Assets (net defined benefit asset)	(24,775)	(110)
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ (22,472)	¥ 30,420

Retirement benefit expenses and its breakdowns

	Millions of yen	
	2016	
	Domestic plans	Foreign plans
Service cost	¥ 2,222	¥ 527
Interest cost	774	5,160
Expected return on plan assets	(3,033)	(6,129)
Recognition of actuarial gains and losses	1,119	1,416
Amortization of past service cost	—	189
Total	¥ 1,082	¥ 1,163

	Millions of yen	
	2015	
	Domestic plans	Foreign plans
Service cost	¥ 2,276	¥ 816
Interest cost	782	5,820
Expected return on plan assets	(2,978)	(7,405)
Recognition of actuarial gains and losses	1,488	1,759
Amortization of past service cost	—	29
Total	¥ 1,568	¥ 1,019

Past service cost and actuarial gains and losses

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 years ended December 31, 2016 and 2015 are as follows:

	Millions of yen	
	2016	
	Domestic plans	Foreign plans
Past service cost	¥ —	¥ 14
Actuarial gains and losses	1,820	7,270
Total	¥1,820	¥7,284

	Millions of yen	
	2015	
	Domestic plans	Foreign plans
Past service cost	¥ —	¥ 15
Actuarial gains and losses	(705)	5,130
Total	¥(705)	¥5,145

Unrecognized past service cost and unrecognized actuarial gains and losses

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 years ended December 31, 2016 and 2015 are as follows:

	Millions of yen	
	2016	
	Domestic plans	Foreign plans
Unrecognized past service cost	¥ —	¥ 125
Unrecognized actuarial gains and losses	5,576	(46,450)
Total	¥5,576	¥(46,325)

	Millions of yen	
	2015	
	Domestic plans	Foreign plans
Unrecognized past service cost	¥ —	¥ 111
Unrecognized actuarial gains and losses	3,756	(53,720)
Total	¥3,756	¥(53,609)

Major breakdown of plan assets

	2016	
	Domestic plans	Foreign plans
Equity securities	**51.7%**	**27.8%**
Debt securities	**21.8%**	**56.1%**
Other	**26.5%**	**16.1%**
Total	**100.0%**	**100.0%**

Note: 28.5% of the assets of the domestic plans is available-for-sale securities contributed to the employee retirement benefit trust.

	2015	
	Domestic plans	Foreign plans
Equity securities	52.5%	26.7%
Debt securities	19.1%	56.2%
Other	28.4%	17.1%
Total	100.0%	100.0%

Note: 28.1% of the assets of the domestic plans are available-for-sale securities contributed to the employee retirement benefit trust.

Actuarial assumptions

	2016	
	Domestic plans	Foreign plans
Discount rate	**0.8%**	**1.3%–4.2%**
Expected return rate on plan assets	**3.0%**	**5.5%–6.4%**
Expected rate of increase in salary	**3.3%**	**2.0%–3.5%**

Note: 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.

	2015	
	Domestic plans	Foreign plans
Discount rate	0.8%	1.5%–4.5%
Expected return rate on plan assets	3.0%	5.5%–6.8%
Expected rate of increase in salary	3.3%	1.9%–3.5%

Note: 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.

(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 for the fiscal years ended December 31, 2016 and 2015 were ¥1,947 million and ¥2,151 million, respectively.

Note 13: Net Assets

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(1) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as: (a) having the board of directors, (b) having independent auditors, (c) having the board of corporate auditors and (d) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the board of directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Companies Act permits companies to distribute dividends in kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the board of directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury shares. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(2) Increases/decreases and transfer of common stocks, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(3) Treasury shares and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury shares and dispose of such treasury shares by resolution of the board of directors. The amount of treasury shares purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Companies Act, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury shares. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

Note 14:
Capital Stock

The Company retired its treasury shares on January 15, 2016. In addition, the Company implemented the consolidation of shares of common stock by a factor of 10 to 1, with July 1, 2016, as the effective date. As a result, the number of authorized shares as of December 31, 2016 and 2015 are 150,000,000 shares and 1,500,000,000 shares, respectively, and the number of shares issued as of December 31, 2016 and 2015 are 95,156,904 shares and 965,372,048 shares, respectively.

Note 15:
Treasury Shares

The Company retired its treasury shares on January 15, 2016. In addition, the Company implemented the consolidation of shares of common stock by a factor of 10 to 1, with July 1, 2016, as the effective date. As a result, the number of treasury shares as of December 31, 2016 and 2015 are 356,552 shares and 17,294,751 shares, respectively.

Note 16:

Income Taxes

The differences between the normal effective statutory tax rate in Japan and the actual effective tax rate for the fiscal years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Normal effective statutory tax rate in Japan	33.1%	35.6%
Adjustments:		
Valuation allowance change	0.6%	1.5%
Tax rate differences	(4.9)%	(4.8)%
Equity in earnings of affiliates	(2.1)%	(1.7)%
Entertainment and other non-deductible expenses	1.8%	2.3%
Elimination of intercompany dividends income	8.0%	5.4%
Dividends income and other non-taxable income	(6.5)%	(6.5)%
State, provincial, municipal and local taxes	0.5%	0.5%
Tax credit for research and development and others	(2.4)%	(3.8)%
Adoption of FIN48	(0.9)%	(0.9)%
Tax credit for the Special Tax Law for the March 11 Earthquake	(0.4)%	(0.4)%
Other	(2.1)%	5.2%
Actual effective tax rate	24.7%	32.4%

The tax effects of significant temporary differences and loss carryforwards, which resulted in deferred tax assets and liabilities, as of December 31, 2016 and 2015 are as follows:

	Millions of yen	
	2016	2015
Deferred tax assets:		
Inventories	¥ 4,131	¥ 4,472
Property, plant and equipment	3,061	3,540
Allowance for doubtful accounts	1,840	1,821
Net defined benefit liability	8,712	9,783
Restructuring and divestitures	262	441
Unrealized gain	958	985
Net operating loss carryforwards	27,425	24,493
Other	25,176	29,115
Subtotal	71,565	74,650
Less: valuation allowance	(19,052)	(16,639)
Total	52,513	58,011
Deferred tax liabilities:		
Deferred income taxes related to gains from property, plant and equipment	(3,012)	(3,392)
Property, plant and equipment	(3,797)	(4,653)
Contribution of securities to employee retirement benefit trust	(1,692)	(1,786)
Net defined benefit asset	(1,008)	—
Other	(6,013)	(6,656)
Total	(15,522)	(16,487)
Net deferred tax assets	¥ 36,991	¥ 41,524

Influence from changes in corporation tax rate

As a result of the "Act for Partial Amendment of the Income Tax Act" (Act No. 15 of 2016) and the "Act for Partial Amendment of the Local Tax Act" (Act No. 13 of 2016) passed in the Diet on March 29, 2016, the normal effective statutory tax rate used to calculate deferred tax assets or liabilities changed from 32.3% to 30.9% for those temporary differences expected in fiscal years 2017 and 2018, and to 30.6% for those temporary differences expected after fiscal year 2019.

Consequently, deferred tax assets decreased by ¥173 million and deferred tax liabilities decreased by ¥465 million. Additionally, income taxes–deferred (credit) recognized in the fiscal year ended December 31, 2016 increased by ¥76 million, valuation difference on available-for-sale securities (credit) increased by ¥126 million, deferred gains or losses on hedges (debit) increased by ¥5 million and remeasurements of defined benefit plans (credit) increased by ¥95 million.

Note 17:

Research and Development Costs

Research and development costs charged to income for the fiscal years ended December 31, 2016 and 2015 are ¥11,206 million and ¥12,163 million, respectively.

Note 18:

Leases

Operating leases

Future minimum rental payments under non-cancellable operating leases at December 31, 2016 and 2015 are as follows:

	Millions of yen	
	2016	2015
Due within one year	¥2,509	¥2,645
Due after one year	6,576	6,821
Total	¥9,085	¥9,466

Note 19:

Financial Instruments

Group policy for financial instruments

The Group manages funds with safe and secure financial assets. Means of financings include direct financing such as the issuance of bonds and commercial papers and liquidation of receivables, as well as indirect financing such as short- and long-term bank borrowings, the terms of which are determined based on financial market conditions and balance of account at the time.

Nature and extent of risks arising from financial instruments

Receivables such as notes and accounts receivable–trade are exposed to customer credit risk. In addition, some of such receivables are denominated in foreign currencies and are exposed to the market risk of fluctuation in foreign currency exchange rates. Investment securities, mainly the stocks of customers and suppliers, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as notes and accounts payable–trade, are less than one year. In addition, some of such payables are denominated in foreign currencies and are exposed to the market risk of fluctuation in foreign currency exchange rates.

Funds needed for operations are mainly procured as short-term loans payable, whereas funds needed for capital expenditure and investment are mainly procured as long-term loans payable, bonds payable and lease obligations with regard to finance lease transactions. A part of such bank loans, bonds and lease obligations are exposed to market risks from changes in variable interest rates. Trade accounts payable and loans payable of the Company are also exposed to liquidity risk that the Company cannot meet its contractual obligations in full on maturity dates.

Risk management for financial instruments

The Company manages its credit risk from trade notes and accounts receivable on the basis of internal guidelines, which include the monitoring of payment terms and balances of customers by the sales and business administration departments to identify the default risk of customers at an early stage. The consolidated subsidiaries of the Company manage the exposure to credit risk on their own in accordance with their internal guidelines. Investment securities are managed by monitoring market values, the financial position of issuers and considering the relationship with customers and suppliers on a regular basis. The Group also tries to mitigate liquidity risk by arranging lines of credit with financial institutions, along with adequate financial planning.

Fair value of financial instruments

The following tables present the carrying amounts and the fair value of financial instruments at December 31, 2016 and 2015. Financial instruments whose fair value is not reliably measured are excluded from the tables below.

	Millions of yen		
	2016		
	Carrying amount	Fair value	Difference
Assets:			
Cash and deposits	¥ 17,241	¥ 17,241	¥ —
Notes and accounts receivable—trade	215,369	215,369	—
Investment securities			
Stocks of subsidiaries and affiliates	2,364	5,579	3,215
Other	15,888	15,888	—
Total	¥250,862	¥254,077	¥3,215
Liabilities:			
Notes and accounts payable—trade	¥ 94,392	¥ 94,392	¥ —
Short-term loans payable	52,744	52,744	—
Current portion of long-term loans payable	43,647	43,863	216
Lease obligations (current)	584	584	—
Income taxes payable	4,153	4,153	—
Bonds payable	30,000	30,075	75
Long-term loans payable	109,918	110,136	218
Lease obligations (non-current)	4,394	4,827	433
Total	¥339,832	¥340,774	¥ 942
Derivative financial instruments: (Note)			
Hedge accounting—not applied	¥ 472	¥ 472	¥ —
Hedge accounting—applied	(266)	(266)	—
Total	¥ 206	¥ 206	¥ —

	Millions of yen		
	2015		
	Carrying amount	Fair value	Difference
Assets:			
Cash and deposits	¥ 15,363	¥ 15,363	¥ —
Notes and accounts receivable—trade	221,006	221,006	—
Investment securities			
Stocks of subsidiaries and affiliates	1,899	4,880	2,981
Other	13,848	13,848	—
Total	¥252,116	¥255,097	¥2,981

Liabilities:			
Notes and accounts payable—trade	¥ 95,569	¥ 95,569	¥ —
Short-term loans payable	20,632	20,632	—
Current portion of long-term loans payable	61,630	61,896	266
Commercial papers	4,000	4,000	—
Current portion of bonds	8,000	8,041	41
Lease obligations (current)	572	572	—
Income taxes payable	8,347	8,347	—
Bonds payable	20,000	20,127	127
Long-term loans payable	139,900	140,412	512
Lease obligations (non-current)	4,718	5,058	340
Total	¥363,368	¥364,654	¥1,286

Derivative financial instruments: (Note)			
Hedge accounting—not applied	¥ 593	¥ 593	¥ —
Hedge accounting—applied	(89)	(89)	—
Total	¥ 504	¥ 504	¥ —

Note: Figures are net of debts and credits that arise from derivative financial instruments. Net debt amounts are indicated in parentheses.

The valuation techniques used to estimate the fair value of financial instruments and information on the marketable securities and derivative financial instruments are as follows:

Assets

Cash and deposits and notes and accounts receivable–trade

The fair value of cash and deposits and notes and accounts receivable–trade approximates their carrying amounts as these amounts are settled in a short period of time.

Investment securities

The fair value of investment securities is measured at the quoted market price on the stock exchange.

Liabilities

Notes and accounts payable–trade, short-term loans payable and income taxes payable

The fair value of these accounts approximates their carrying amounts as these amounts are settled in a short period of time.

Current portion of long-term loans payable and long-term loans payable

For long-term loans payable bearing a floating interest rate, the fair value of those subject to special treatment of interest rate swaps are based on present value by totaling the amount of principal and interest, together with related interest rate swaps, discounted by the interest rate that would apply if equivalent long-term loans were newly entered into. The fair value of other long-term loans payable for which a floating interest rate is applied approximates their carrying amount, due to the fact that the market rate of interest is quickly factored in while credit status of the Company remains unchanged.

On the other hand, the fair value of long-term loans payable for which a fixed interest rate is applied is determined by discounting the cash flows related to the long-term loans payable. The discount rate applied for the calculation above is the interest rate that may be currently available to the Group for loans payable with similar terms and conditions.

Bonds payable

As for bonds payable which has observable market prices, the fair value is measured using the quoted market prices.

Lease obligations (current) and lease obligations (non-current)

The fair value of these accounts is determined by discounting the cash flows related to the lease obligations. The discount rate applied for the calculation above is the interest rate that may be currently available to the Group for lease obligations with similar terms and conditions.

Derivative financial instruments

Please see Note 20 "Derivative Financial Instruments" for more information.

Financial instruments whose fair value is not reliably measured

There are no market prices for non-listed stocks and others (carrying amounts as of December 31, 2016 and 2015 are ¥22,755 million and ¥21,328 million, respectively) whose future cash flows cannot be estimated. The fair value of such non-listed stocks and others is not reliably determinable and thus is excluded from investment securities.

Redemption schedule for financial assets and securities

The redemption schedules for financial assets and securities with contractual maturities as of December 31, 2016 and 2015 are summarized as follows:

				Millions of yen
				2016
	1 year or less	More than 1 year but less than 5 years	More than 5 years but less than 10 years	More than 10 years
Notes and accounts receivable—trade	¥215,369	¥—	¥—	¥—
Total	¥215,369	¥—	¥—	¥—

				Millions of yen
				2015
	1 year or less	More than 1 year but less than 5 years	More than 5 years but less than 10 years	More than 10 years
Notes and accounts receivable—trade	¥221,006	¥—	¥—	¥—
Total	¥221,006	¥—	¥—	¥—

Repayment schedule for bonds payable, long-term loans payable and other interest-bearing debt

The repayment schedules for bonds payable, long-term loans payable and other interest-bearing debt with contractual maturities as of December 31, 2016 and 2015 are summarized as follows:

				Millions of yen
				2016
	1 year or less	More than 1 year but less than 5 years	More than 5 years but less than 10 years	More than 10 years
Short-term loans payable	¥52,744	¥ —	¥ —	¥ —
Current portion of long-term loans payable	43,647	—	—	—
Lease obligations (current)	584	—	—	—
Bonds payable	—	—	25,000	5,000
Long-term loans payable	—	99,878	10,040	—
Lease obligations (non-current)	—	1,963	2,270	161
Total	¥96,975	¥101,841	¥37,310	¥5,161

	Millions of yen			
	2015			
	1 year or less	More than 1 year but less than 5 years	More than 5 years but less than 10 years	More than 10 years
Short-term loans payable	¥20,632	¥ —	¥ —	¥ —
Current portion of long-term loans payable	61,630	—	—	—
Commercial papers	4,000	—	—	—
Current portion of bonds	8,000	—	—	—
Lease obligations (current)	572	—	—	—
Bonds payable	—	—	20,000	—
Long-term loans payable	—	129,877	10,023	—
Lease obligations (non-current)	—	1,983	2,271	464
Total	¥94,834	¥131,860	¥32,294	¥464

Note 20: Derivative Financial Instruments

The Group has entered into various foreign currency forward contracts, currency options and swaps, and commodity swaps.

Foreign currency forward contracts and currency options and swaps are entered into to hedge the effects of exchange rate changes on receivables and payables or anticipated transactions denominated in foreign currencies. Interest rate swaps are entered into to hedge the effects of interest rate changes and to reduce financing cost. Commodity swaps are entered into to hedge the effects of commodity price changes of fuel. Loans denominated in foreign currencies are entered into to hedge a part of risks associated with the fluctuations of exchange rates for investments in foreign entities.

The Group does not use derivative instruments for trading or speculative purposes. Derivative transactions performed by the Group have risks due to fluctuations of exchange rates, interest rates and other factors.

Because these transactions are executed with creditworthy financial institutions, the Group does not anticipate the likelihood of any losses resulting from default by the counterparties to these agreements.

Internal regulation for managing derivative transactions has been established for the purpose of risk control in the Company, and all derivative transactions are performed under this regulation.

The execution of derivative transactions is carried out by the Company's finance department, and the management of risk is monitored by the Company's accounting department. Transactions are periodically reported to the board of directors by the officer in charge of the Finance and Accounting Division.

Consolidated subsidiaries execute transactions in accordance with their regulations for derivative management and periodically report the results of those transactions to the Company.

Derivative transactions to which hedge accounting is not applied at December 31, 2016 and 2015

(1) Currency related

	Millions of yen			
	2016			
	Contract/notional amount	Contract/notional amount due after one year	Fair value	Unrealized gain/loss
Currency swaps: (Note 1)				
(Payment in H.K.$ and receipt in U.S.$)	¥ 855	¥855	¥ 88	¥ 16
(Payment in Japanese yen and receipt in Korean won)	818	—	(18)	(18)
Other	100	—	1	1
Currency options: (Note 1)				
Selling				
GB pound	277	—	1	(1)
Buying				
U.S.$	7,835	—	356	337
Foreign currency forward contracts: (Note 2)				
Selling				
Russian ruble	4,638	—	(52)	49
Canadian $	1,573	—	6	(5)
Other	2,075	—	1	(1)
Buying				
U.S.$	3,694	—	97	94
Euro	1,029	—	(3)	(3)
Other	360	—	(5)	(5)
Total	¥23,254	¥855	¥472	¥464

Millions of yen

	2015			
	Contract/notional amount	Contract/notional amount due after one year	Fair value	Unrealized gain/loss
Currency swaps: (Note 1)				
(Payment in H.K.$ and receipt in U.S.$)	¥ 882	¥882	¥(73)	¥ (36)
(Payment in Japanese yen and receipt in Korean won)	827	—	(4)	(4)
Other				
Currency options: (Note 1)				
Selling				
Euro	526	—	(2)	2
Buying				
U.S.$	12,476	—	374	376
Euro	2,546	—	44	44
Foreign currency forward contracts: (Note 2)				
Selling				
Russian ruble	3,579	—	104	(104)
Canadian $	1,588	—	8	(8)
Other	1,596	—	(78)	78
Buying				
U.S.$	5,389	—	170	171
Euro	1,268	—	50	50
Total	¥30,677	¥882	¥593	¥ 569

Notes: 1. The fair value of currency swaps and currency options is measured using the quoted price obtained from financial institutions. Currency options used are called collar options, which effectively limit the risk arising from the changes in exchange rate by the combination of buying call options and selling put options, or selling call options and buying put options.
2. The fair value of foreign currency forward contracts is measured using the forward quotation.

Derivative transactions to which hedge accounting is applied at December 31, 2016 and 2015

(1) Currency related

Millions of yen

		2016		
	Hedged item	Contract/notional amount	Contract/notional amount due after one year	Fair value
Foreign currency forward contracts: (Note 1)				
Selling				
Euro	Forecast transaction	**¥ 178**	**¥ —**	**¥ (6)**
U.S.$		**3,973**	**—**	**(292)**
Buying				
U.S.$	Accounts payable—trade	**76**	**—**	**2**
Foreign currency forward contracts: (Notes 1 and 2)				
Selling				
U.S.$	Accounts receivable—trade	**2,613**	**—**	
Euro		**324**	**—**	
Buying				
Chinese yuan	Loans payable	**451**	**—**	
Currency swaps: (Notes 1 and 2)				
(Payment in Japanese yen and receipt in U.S.$)	Loans payable	**38,913**	**11,847**	
Total		**¥46,528**	**¥11,847**	**¥(296)**

Millions of yen

	Hedged item	2015 Contract/notional amount	2015 Contract/notional amount due after one year	2015 Fair value
Currency swaps: (Note 1)				
(Payment in Australia $ and receipt in Singapore $)	Loans receivable	¥ 510	¥ —	¥ 10
(Payment in New Zealand $ and receipt in Singapore $)	Loans receivable	276	—	(14)
Foreign currency forward contracts: (Note 1)				
Selling				
Euro	Forecast transaction	217	—	(1)
U.S.$	Forecast transaction	58	—	2
Buying				
U.S.$	Accounts payable—trade	270	—	(3)
Chinese yuan	Accounts payable—trade	1	—	0
Foreign currency forward contracts: (Notes 1 and 2)				
Selling				
U.S.$	Accounts receivable—trade	4,397	—	
Euro	Accounts receivable—trade	355	—	
Buying				
Chinese yuan	Loans payable	3,203	—	
Currency swaps: (Notes 1 and 2)				
(Payment in Japanese yen and receipt in U.S.$)	Loans payable	11,847	11,847	
Total		¥21,134	¥11,847	¥ (6)

Notes: 1. The fair value of currency swaps and foreign currency forward contracts is measured using the quoted price obtained from financial institutions.

2. Exchange contracts and currency swaps appropriated to specific debts and credits are settled together with either accounts receivable–trade or loans payable subject to hedged transaction. Accordingly, the fair value of such exchange contracts is reflected in accounts receivable–trade or loans payable.

(2) Interest related

Millions of yen

	Hedged item	**2016** Contract/notional amount	**2016** Contract/notional amount due after one year	**2016** Fair value
Interest rate swaps: (Note)				
(Fixed rate payment, floating rate receipt)	Loans payable	**¥46,838**	**¥15,000**	
(Floating rate payment, floating rate receipt)		**1,000**	**—**	
Total		**¥47,838**	**¥15,000**	**¥—**

Note: If interest rate swaps qualify for hedge accounting and meet certain specific criteria, they are settled together with loans payable subject to hedged transaction. Accordingly, the fair value of such interest rate swaps is reflected in loans payable.

	Hedged item	Contract/notional amount	Contract/notional amount due after one year	Fair value
		Millions of yen 2015		
Interest rate swaps: (Note 1) (Fixed rate payment, floating rate receipt)	Loans payable	¥ 341	¥ —	¥ (6)
Interest rate options: (Note 2) Buying	Loans payable	6,538	—	(32)
Interest rate swaps: (Note 3) (Fixed rate payment, floating rate receipt) (Floating rate payment, floating rate receipt)	Bonds payable, loans payable	50,582 6,000	35,541 5,000	
Total		¥63,461	¥40,541	¥(38)

Notes: 1. The fair value of interest rate swaps is measured using the quoted price obtained from financial institutions.
2. Interest rate options used are called collar options, which effectively limit the risk arising from the changes in interest rates by the combination of buying call options and selling put options.
3. If interest rate swaps qualify for hedge accounting and meet certain specific criteria, they are settled together with either bonds payable or loans payable subject to hedged transaction. Accordingly, the fair value of such interest rate swaps is reflected in bonds payable and loans payable.

(3) Commodity related

	Hedged item	Contract/notional amount	Contract/notional amount due after one year	Fair value
		Millions of yen **2016**		
Commodity swaps: (Note) (Fixed price payment, floating price receipt)	Fuel	**¥195**	**¥51**	**¥30**
Total		**¥195**	**¥51**	**¥30**

	Hedged item	Contract/notional amount	Contract/notional amount due after one year	Fair value
		Millions of yen 2015		
Commodity swaps: (Note) (Fixed price payment, floating price receipt)	Fuel	¥104	¥—	¥(45)
Total		¥104	¥—	¥(45)

Note: The fair value of commodity swaps is measured using the quoted price obtained from the exchange.

Note 21:

Commitments and Contingent Liabilities

Contingent liabilities at December 31, 2016 and 2015 are as follows:

	Millions of yen **2016**	2015
Trade notes endorsed	**¥178**	¥ 200
Trade notes discounted with banks	**29**	—
Liabilities for guarantee and other	**771**	881
Total	**¥978**	¥1,081

In the opinion of management, the eventual settlement of pending lawsuits in which any of the companies in the Group is the defendant will not have a material effect on the consolidated financial position or consolidated results of operations of the Group.

Note 22:

Other Comprehensive Income

Each component of other comprehensive income and related tax effects (including those on non-controlling interests) for the fiscal years ended December 31, 2016 and 2015 comprises the following:

	Millions of yen	
	2016	2015
Valuation difference on available-for-sale securities:		
Gains (losses) arising during the year	¥ 2,303	¥ 1,074
Reclassification adjustments to profit (loss)	(123)	(39)
Amount before income tax effect	2,180	1,035
Income tax effect	(571)	(190)
Total	1,609	845
Deferred gains or losses on hedges:		
Gains (losses) arising during the year	(31)	131
Reclassification adjustments to profit (loss)	(148)	137
Amount before income tax effect	(179)	268
Income tax effect	67	(166)
Total	(112)	102
Foreign currency translation adjustment:		
Adjustments arising during the year	(18,179)	(14,440)
Reclassification adjustments to profit (loss)	—	(83)
Amount before income tax effect	(18,179)	(14,523)
Total	(18,179)	(14,523)
Remeasurements of defined benefit plans:		
Adjustments arising during the year	6,380	1,164
Reclassification adjustments to profit (loss)	2,724	3,276
Amount before income tax effect	9,104	4,440
Income tax effect	(2,838)	(880)
Total	6,266	3,560
Share of other comprehensive income of associates accounted for using equity method:		
Gains (losses) arising during the year	(972)	(1,194)
Reclassification adjustments to profit (loss)	7	(115)
Total	(965)	(1,309)
Total other comprehensive income	¥(11,381)	¥(11,325)

Note 23: Subsequent Events

(1) At the Company's annual meeting of shareholders held on March 29, 2017, the shareholders approved the following appropriations of retained earnings:

	Millions of yen
Cash dividends, ¥60.00 per share	¥5,688
Total	¥5,688

(2) At a meeting of its board of directors on January 25, 2017, the Company resolved to enter into a capital and business alliance with TAIYO HOLDINGS CO., LTD., as a result of which TAIYO HOLDINGS CO., LTD. would become an equity-method affiliate of the Company. A capital and business alliance agreement between the companies was concluded on the same day. The Company acquired shares on February 10, 2017.

Purpose of the capital and business alliance

The Company and TAIYO HOLDINGS CO., LTD. aim to increase the benefits to be gained by bringing together the former's materials development capabilities, which draw on core technologies cultivated over many years, and the latter's firm understanding of market needs, which reflect an extensive supply chain from solder resist to printed writing boards.

Name of the entity from which the Company acquired shares

TAIYO HOLDINGS CO., LTD.

Name, principal businesses and stated capital of the entity of which the Company acquired shares

(i) Name	TAIYO HOLDINGS CO., LTD.
(ii) Principal businesses	Manufacture and sale, as well as purchase and sale, of chemical products for use in electronics components
(iii) Stated capital	¥6,265 million (as of December 31, 2016)

Date of share acquisition

February 10, 2017

Number of shares acquired by the Company, cost of acquisition and rate of voting rights acquired

(i) Number of shares acquired		5,617,300
	New shares:	1,312,600 shares (common stock)
	Treasury shares:	4,304,700 shares (common stock)
(ii) Cost of acquisition	¥24,873 million	
(iii) Ration of voting rights acquired	19.50%	

Funding and method of payment

The Company paid by its own funds and loans.

Note 24:

Segment Information

(1) Segment information

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 seven product divisions, namely "Printing Inks," "Pigments," "Liquid Crystal Materials," "Polymers," "Liquid Compounds," "Solid Compounds" and "Application Materials," and each product division conducts its business.

The product divisions are aggregated into five reportable segments, namely "Printing Inks," "Fine Chemicals," "Polymers," "Compounds" and "Application Materials," based on the similarity of the products and services.

"Printing Inks" mainly consists of gravure inks, offset inks and news inks. "Fine Chemicals" mainly consists of organic pigments and liquid crystal materials. "Polymers" mainly consists of synthetic resins, such as acrylic, polyurethane, epoxy and polystyrene resins. "Compounds" mainly consists of polyphenylene sulfide (PPS) compounds, jet inks and plastic colorants. "Application Materials" mainly consists of industrial adhesive tapes and health foods.

Methods 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 Note 2 "Summary of Significant Accounting Policies."

Segment profits are based on operating income.

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

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

Millions of yen

	2016							
	Reportable Segment							
	Printing Inks	Fine Chemicals	Polymers	Compounds	Application Materials	Total	Others	Total
Sales:								
Sales to customers	¥365,189	¥ 91,642	¥177,158	¥61,056	¥55,614	¥750,659	¥ 779	¥751,438
Intersegment sales	—	36,534	3,777	63	61	40,435	—	40,435
Total sales	365,189	128,176	180,935	61,119	55,675	791,094	779	791,873
Segment profit	18,363	14,430	19,642	4,975	1,867	59,277	45	59,322
Segment assets	¥312,608	¥ 99,280	¥195,521	¥64,499	¥53,732	¥725,640	¥37,558	¥763,198
Others:								
Depreciation and amortization	12,485	4,807	7,435	4,277	2,249	31,253	402	31,655
Amortization of goodwill	42	133	164	4	—	343	30	373
Investments in affiliates	1,164	1,015	17,115	—	1,417	20,711	2,365	23,076
Increase in property, plant and equipment and intangible assets	10,531	3,859	8,725	4,577	1,984	29,676	357	30,033

Millions of yen

2015

	Reportable Segment: Printing Inks	Reportable Segment: Fine Chemicals	Reportable Segment: Polymers	Reportable Segment: Compounds	Reportable Segment: Application Materials	Reportable Segment: Total	Others	Total
Sales:								
Sales to customers	¥412,576	¥ 94,232	¥191,125	¥63,541	¥57,438	¥818,912	¥ 1,087	¥819,999
Intersegment sales	—	41,298	3,495	28	64	44,885	—	44,885
Total sales	412,576	135,530	194,620	63,569	57,502	863,797	1,087	864,884
Segment profit	18,988	13,119	15,974	5,739	2,099	55,919	77	55,996
Segment assets	¥322,779	¥104,601	¥196,005	¥62,208	¥55,490	¥741,083	¥33,923	¥775,006
Others:								
Depreciation and amortization	12,553	4,811	7,911	4,315	2,065	31,655	518	32,173
Amortization of goodwill	135	148	151	13	—	447	30	477
Investments in affiliates	1,160	1,118	16,509	—	1,370	20,157	1,898	22,055
Increase in property, plant and equipment and intangible assets	9,851	4,794	7,838	4,097	4,019	30,599	642	31,241

Reconciliation between reportable segment total and amounts disclosed in consolidated financial statements

Millions of yen

	2016	2015
Sales:		
Reportable segment total	¥791,094	¥863,797
Sales in "Others"	779	1,087
Elimination of intersegment transactions	(40,435)	(44,885)
Sales in consolidated financial statements	¥751,438	¥819,999

Millions of yen

	2016	2015
Profit:		
Reportable segment total	¥59,277	¥55,919
Profit in "Others"	45	77
Corporate expenses	(5,140)	(4,928)
Operating income in consolidated financial statements	¥54,182	¥51,068

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

Millions of yen

	2016	2015
Assets:		
Reportable segment total	¥725,640	¥741,083
Assets in "Others"	37,558	33,923
Elimination between segments	(38,942)	(34,073)
Corporate assets	40,572	37,924
Assets in consolidated financial statements	¥764,828	¥778,857

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

Other items are as follows:

Millions of yen

	2016				2015			
	Reportable Segments	Others	Adjustments	Consolidated	Reportable Segments	Others	Adjustments	Consolidated
Depreciation and amortization	¥31,253	¥ 402	¥ 789	¥32,444	¥31,655	¥ 518	¥713	¥32,886
Amortization of goodwill	343	30	—	373	447	30	—	477
Investments in affiliates	20,711	2,365	—	23,076	20,157	1,898	—	22,055
Increase in property, plant and equipment and intangible assets	29,676	357	1,246	31,279	30,599	642	847	32,088

Notes: 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.

New corporate organization introduced

Effective from January 1, 2016, the Company revised its segmentation to coincide with the launch of its medium-term management plan, DIC108. Accordingly, certain figures for the fiscal year ended December 31, 2015, have been restated.

(2) Related information

Information about geographical areas

Millions of yen

	2016			
	Japan	USA	Others	Total
Net sales (Note)	¥282,457	¥97,898	¥371,083	¥751,438
Property, plant and equipment	121,982	28,360	76,318	226,660

Millions of yen

	2015			
	Japan	USA	Others	Total
Net sales (Note)	¥286,283	¥112,320	¥421,396	¥819,999
Property, plant and equipment	119,193	31,611	82,341	233,145

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

Information about major customers

Not applicable for the fiscal years ended December 31, 2016 and 2015, because there is no single customer which accounts for more than 10% of net sales shown on the consolidated statement of income.

(3) Impairment loss of assets by reportable segment

There was no impairment loss of assets for the fiscal year ended December 31, 2016.

Millions of yen

	2015							
	Printing Inks	Fine Chemicals	Polymers	Compounds	Application Materials	Others	Corporate and eliminations	Consolidated
Impairment loss	¥674	¥—	¥—	¥—	¥—	¥—	¥—	¥674

(4) Amortization and unamortized balances of goodwill by reportable segment

Millions of yen

	2016							
	Printing Inks	Fine Chemicals	Polymers	Compounds	Application Materials	Others	Corporate and eliminations	Consolidated
Amortization	¥42	¥133	¥164	¥ 4	¥—	¥30	¥—	¥373
Unamortized balances	73	128	240	—	—	60	—	501

Millions of yen

2015	Printing Inks	Fine Chemicals	Polymers	Compounds	Application Materials	Others	Corporate and eliminations	Consolidated
Amortization	¥135	¥148	¥151	¥13	¥—	¥30	¥—	¥477
Unamortized balances	135	273	404	4	—	90	—	906

(5) Gain on bargain purchase by reportable segment

There was no gain on bargain purchase for the fiscal year ended December 31, 2015.

Millions of yen

2016	Printing Inks	Fine Chemicals	Polymers	Compounds	Application Materials	Others	Corporate and eliminations	Consolidated
Gain on bargain purchase	¥—	¥—	¥78	¥—	¥—	¥—	¥—	¥78

Note: Gain on bargain purchase comes from the acquisition of a subsidiary.

Note 25: Related-Party Transactions

(1) Related-party transactions with the Company

Related-party transactions with directors, corporate auditors, major individual shareholders and others of the Company for the fiscal years ended December 31, 2016 and 2015, are as follows:

Millions of yen

2016

Sort of related party	Name	Location	Capital or invest-ment	Principal business	Ownership of voting rights	Relation with related parties	Contents of transaction	Amount of trans-action (Note 1)	Account	Balance at year-end (Note 2)
Companies where directors and their close relatives owned a majority of the voting rights (Note 3)	Nissei Real-Estate Co., Ltd.	Chiyoda-ku, Tokyo	10	Rental of properties and others	Owned Direct 5.61% Indirect 7.81%	Rental of buildings and others	Payment of rent for buildings and others (Note 4)	2,083	Security deposit	1,777
	Dainichi Can Co., Ltd.	Chiyoda-ku, Tokyo	10	Manufacture and sale of metallic containers	Owned Direct 4.50%	Purchase of metallic containers and others	Purchase of metallic containers and others (Note 5)	481	Trade notes and accounts payable, and other accounts payable	187
							Sales of merchandise and finished goods, and offering of service (Note 6)	55	Trade notes and accounts receivable	21
	Nissin Trading Co., Ltd.	Chiyoda-ku, Tokyo	20	Sale, import and export of petrochemical-related products	Owned Direct 3.31%	Purchase of raw materials and others	Purchase of raw materials and others (Note 7)	4,882	Trade notes and accounts payable, and other accounts payable	1,142
							Sales of merchandise and finished goods, and offering of service (Note 6)	3,741	Trade accounts receivable and other accounts receivable	1,373

Notes: 1. Excluding consumption taxes.
2. Including consumption taxes.
3. Yoshihisa Kawamura, a director of the Company, and his close relatives substantially own a majority of the voting rights. Dainichi Can Co., Ltd. and Nissin Trading Co., Ltd. are fully owned by Nissei Real-Estate Co., Ltd.
4. Rent of buildings and others is determined based on an arms-length transaction in the neighboring area.
5. "Purchase of metallic containers and others" is determined based on an arms-length transaction.
6. "Sales of merchandise and finished goods, and offering of service" is determined on an arms-length transaction.
7. "Purchase of raw materials and others" is determined on an arms-length transaction.

Millions of yen

										2015
Sort of related party	Name	Location	Capital or invest-ment	Principal business	Ownership of voting rights	Relation with related parties	Contents of transaction	Amount of trans-action (Note 1)	Account	Balance at year-end (Note 2)
Companies where directors and their close relatives owned a majority of the voting rights (Note 3)	Nissei Real-Estate Co., Ltd.	Chiyoda-ku, Tokyo	10	Rental of properties and others	Owned Direct 5.61% Indirect 7.81%	Rental of buildings and others	Payment of rent for buildings and others (Note 4)	2,171	Security deposit	1,778
	Dainichi Can Co., Ltd.	Chiyoda-ku, Tokyo	10	Manufacture and sale of metallic containers	Owned Direct 4.50%	Purchase of metallic containers and others	Purchase of metallic containers and others (Note 5)	559	Trade accounts payable and other accounts payable	203
							Sales of merchandise and finished goods, and offering of service (Note 6)	108	Trade notes and accounts receivable	23
	Nissin Trading Co., Ltd.	Chiyoda-ku, Tokyo	20	Sale, import and export of petrochemical-related products	Owned Direct 3.31%	Purchase of raw materials and others	Purchase of raw materials and others (Note 7)	5,673	Trade notes and accounts payable, and other accounts payable	1,451
							Sales of merchandise and finished goods, and offering of service (Note 6)	3,637	Trade accounts receivable	1,363

Notes: 1. Excluding consumption taxes.
2. Including consumption taxes.
3. Yoshihisa Kawamura, a director of the Company, and his close relatives substantially own a majority of the voting rights. Dainichi Can Co., Ltd. and Nissin Trading Co., Ltd. are fully owned by Nissei Real-Estate Co., Ltd.
4. Rent of buildings and others is determined based on an arms-length transaction in the neighboring area.
5. "Purchase of metallic containers and others" is determined based on an arms-length transaction.
6. "Sales of merchandise and finished goods, and offering of service" is determined on an arms-length transaction.
7. "Purchase of raw materials and others" is determined on an arms-length transaction.

(2) Related-party transactions with the consolidated subsidiaries

Related-party transactions with directors, corporate auditors, major individual shareholders and others of the Company for the fiscal years ended December 31, 2016 and 2015, are as follows:

Millions of yen

										2016
Sort of related party	Name	Location	Capital or invest-ment	Principal business	Ownership of voting rights	Relation with related parties	Contents of transaction	Amount of trans-action (Note 1)	Account	Balance at year-end (Note 2)
Companies where directors and their close relatives owned a majority of the voting rights (Note 3)	Nissei Real-Estate Co., Ltd.	Chiyoda-ku, Tokyo	10	Rental of properties and others	Owned Indirect 13.42%	Rental of buildings and others	Payment of rent for buildings and others (Note 4)	16	Security deposit	8
	Dainichi Can Co., Ltd.	Chiyoda-ku, Tokyo	10	Manufacture and sale of metallic containers	Owned Indirect 4.50%	Purchase of metallic containers and others	Purchase of metallic containers and others (Note 5)	641	Trade notes and accounts payable, and other accounts payable	172
							Sales of merchandise and finished goods, and offering of service (Note 6)	56	Trade notes and accounts receivable	24
	Nissin Trading Co., Ltd.	Chiyoda-ku, Tokyo	20	Sale, import and export of petrochemical-related products	Owned Indirect 3.31%	Purchase of raw materials and others	Purchase of raw materials and others (Note 7)	690	Trade notes and accounts payable, and other accounts payable	164
							Sales of merchandise and finished goods, and offering of service (Note 6)	387	Trade accounts receivable and other accounts receivable	132

Notes: 1. Excluding consumption taxes.
2. Including consumption taxes.
3. Yoshihisa Kawamura, a director of the Company, and his close relatives substantially own a majority of the voting rights. Dainichi Can Co., Ltd. and Nissin Trading Co., Ltd. are fully owned by Nissei Real-Estate Co., Ltd.
4. Rent of buildings and others is determined based on an arms-length transaction in the neighboring area.
5. "Purchase of metallic containers and others" is determined based on an arms-length transaction.
6. "Sales of merchandise and finished goods, and offering of service" is determined on an arms-length transaction.
7. "Purchase of raw materials and others" is determined based on an arms-length transaction.

Millions of yen

										2015
Sort of related party	Name	Location	Capital or invest-ment	Principal business	Ownership of voting rights	Relation with related parties	Contents of transaction	Amount of trans-action (Note 1)	Account	Balance at year-end (Note 2)
Companies where directors and their close relatives owned a majority of the voting rights (Note 3)	Nissei Real-Estate Co., Ltd.	Chiyoda-ku, Tokyo	10	Rental of properties and others	Owned Indirect 13.42%	Rental of buildings and others	Payment of rent for buildings and others (Note 4)	18	Security deposit	8
	Dainichi Can Co., Ltd.	Chiyoda-ku, Tokyo	10	Manufacture and sale of metallic containers	Owned Indirect 4.50%	Purchase of metallic containers and others	Purchase of metallic containers and others (Note 5)	663	Trade notes and accounts payable, and other accounts payable	131
							Sales of merchandise and finished goods, and offering of service (Note 6)	67	Trade notes and accounts receivable	22
	Nissin Trading Co., Ltd.	Chiyoda-ku, Tokyo	20	Sale, import and export of petrochemical-related products	Owned Indirect 3.31%	Purchase of raw materials and others	Purchase of raw materials and others (Note 7)	960	Trade accounts payable and other accounts payable	161
							Sales of merchandise and finished goods, and offering of service (Note 6)	373	Trade accounts receivable	129

Notes: 1. Excluding consumption taxes.

2. Including consumption taxes.

3. Yoshihisa Kawamura, a director of the Company, and his close relatives substantially own a majority of the voting rights. Dainichi Can Co., Ltd. and Nissin Trading Co., Ltd. are fully owned by Nissei Real-Estate Co., Ltd.

4. Rent of buildings and others is determined based on an arms-length transaction in the neighboring area.

5. "Purchase of metallic containers and others" is determined based on an arms-length transaction.

6. "Sales of merchandise and finished goods, and offering of service" is determined on an arms-length transaction.

7. "Purchase of raw materials and others" is determined based on an arms-length transaction.

Management's Report on Internal Control

1. Basic framework for internal control over financial reporting

Yoshiyuki Nakanishi, Representative Director, President and CEO, and Masayuki Saito, Representative Director, Executive Vice President and CFO of DIC Corporation (the "Company"), are responsible for designing and operating internal control over the Company's financial reporting and have designed and operated internal control over financial reporting in accordance with the basic framework for internal control set forth in "On the Revision of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)," issued by the Business Accounting Council of the Financial Services Agency of Japan.

Internal control aims to achieve its objectives to a reasonable extent with the organized and integrated function of basic individual elements of internal control as a whole. Accordingly, due to the inherent limitations, there is a possibility that misstatements may not be completely prevented or detected by internal controls over financial reporting.

2. Scope of assessment, the basis date of assessment and assessment procedures

The assessment of internal control over financial reporting for fiscal year 2016 was conducted as of December 31, 2016, which is the end of this fiscal year. The assessment was performed in accordance with relevant assessment standards generally accepted in Japan for internal control over financial reporting.

In conducting this assessment, we began by evaluating internal control which may have a material impact on overall consolidated financial reporting ("company-level controls") and, based on the results of this assessment, business processes to be assessed were selected. We then analyzed these selected business processes to identify key controls therein that may have a material impact on the reliability of the Company's financial reporting, after which we examined the design and operation of these controls. These procedures thus allowed us to accurately evaluate the effectiveness of the Company's internal control.

We determined the required scope of assessment of internal control over financial reporting for the Company and its consolidated subsidiaries and equity-method affiliates from the perspective of materiality or the degree to which it may affect the reliability of financial reporting. Materiality of the impact which may affect the reliability of financial reporting is determined based on potential quantitative and qualitative impact on financial reporting. In light of the results of assessment of company-level controls, we reasonably determined the scope of assessment of process-level controls. Consolidated subsidiaries and equity-method affiliates which were concluded as immaterial taking into account the degree of quantitative and qualitative impact are not included in the scope for assessment of company-level controls.

With regard to the process-level controls, significant locations and business units to be tested were selected based on the changes in the scope of consolidation during the year, as well as on net sales for the previous year, with locations and business units the combined sales volume of which reached approximately two-thirds of consolidated net sales being defined as "significant." The scope of assessment at these locations and business units encompassed business processes relevant to net sales, accounts receivable-trade, accounts payable-trade, inventories and manufacturing facilities included in property, plant and equipment as significant accounts that may have a material impact on the business objectives of the Company. In addition, business processes relating to (i) greater likelihood of material misstatements, and/or (ii) significant accounts involving estimates and management's judgment, were also identified as business processes having greater materiality, taking into account their impact on financial reporting, and were included in the scope.

3. Results of the assessment

Based on the results of the assessment, we concluded that as of the end of the fiscal year ended December 31, 2016, the Company's internal control over financial reporting was effectively maintained.

Yoshiyuki Nakanishi
Representative Director, President and CEO
DIC Corporation

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of DIC Corporation:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of DIC Corporation and its subsidiaries as of December 31, 2016, and the related consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DIC Corporation and its subsidiaries as of December 31, 2016, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Report on Internal Control

We have audited management's report on internal control over financial reporting of the consolidated financial statements of DIC Corporation as of December 31, 2016.

Management's Responsibility 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. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on management's report on internal control based on our audit. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether management's report on internal control is free from material misstatement.

An internal control audit involves performing procedures to obtain audit evidence about 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. An internal control audit includes examining 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.

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

Opinion

In our opinion, management's report on internal control referred to above, which represents that the internal control over financial reporting of the consolidated financial statements of DIC Corporation as of December 31, 2016 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.

Deloitte Touche Tohmatsu LLC

March 29, 2017

Investor Information and Corporate Data

(As of December 31, 2016)

Investor Information

Common Stock

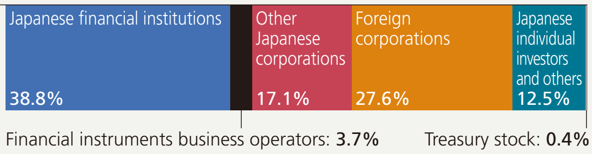
DIC common stock is listed and traded on the Tokyo Stock Exchange. There were 36,895 shareholders of record on December 31, 2016. On the Tokyo Stock Exchange, the high and low prices for each quarter of the years 2016 and 2015 were as follows:

	2016		2015	
	High	Low	High	Low
Jan.–Mar.	**¥3,310**	**¥2,260**	¥3,600	¥2,640
Apr.–Jun.	**2,630**	**2,340**	3,820	3,020
Jul.–Sept.	**3,270**	**2,037**	3,140	2,560
Oct.–Dec.	**3,845**	**2,915**	3,770	2,700

*Stock price figures have been adjusted to account for the impact of a consolidation of shares of common stock by a factor of 10 to 1 with July 1, 2016, as the effective date.

Total Number of Shares Authorized	150,000,000 shares
Number of Unit Shares	100 shares
Paid-in Capital	¥96,556,692,787 (95,156,904 shares)
Independent Public Accountants	Deloitte Touche Tohmatsu LLC

Distribution of Shareholders



Major Shareholders

	Number of Shares Owned (Thousands)	Percentage of Total
Japan Trustee Services Bank, Ltd. (Trust Account)	6,434	6.76%
Nissei Real-Estate Co., Ltd.	5,310	5.58
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,526	4.75
Dainichi Can Co., Ltd.	4,256	4.47
The Dai-ichi Life Insurance Company, Limited	3,500	3.67
Nissin Trading Co., Ltd.	3,127	3.28
Japan Trustee Services Bank, Ltd. (Trust Account 4)	2,680	2.81
Aioi Nissay Dowa Insurance Co., Ltd.	2,590	2.72
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,269	2.38
Nippon Life Insurance Company	1,900	1.99
	36,596	38.46%

Note: The Company implemented a consolidation of shares of common stock by a factor of 10 to 1 and changed the minimum unit of tradable shares from 1,000 shares to 100 shares with July 1, 2016, as the effective date.

Transfer Agent

Mitsubishi UFJ Trust and Banking Corporation
10-11, Higashisuna 7-chome, Koto-ku, Tokyo
137-8081, Japan

Meeting of Shareholders

Our annual meeting of shareholders is held in March.

For Further Information, Contact:

Corporate Communications Dept.
DIC Corporation
DIC Building, 7-20, Nihonbashi 3-chome, Chuo-ku,
Tokyo 103-8233, Japan
Tel.: (03) 6733-3033
E-mail: prir@ma.dic.co.jp

Corporate Data

Registered Address

35-58, Sakashita 3-chome, Itabashi-ku,
Tokyo 174-8520, Japan

Corporate Headquarters

DIC Building, 7-20,
Nihonbashi 3-chome, Chuo-ku,
Tokyo 103-8233, Japan
Tel.: (03) 6733-3000
http://www.dic-global.com/

Principal Domestic Offices, Plants and Laboratories (Nonconsolidated)

Number of Branch Offices: 2
Number of Plants: 9
Number of Laboratories: 1

Number of Employees

20,481

Date of Foundation

February 15, 1908

Date of Incorporation

March 15, 1937

Color & Comfort

DIC Corporation

DIC Building, 7-20, Nihonbashi 3-chome,
Chuo-ku, Tokyo 103-8233, Japan
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