To our shareholders:

# Items Disclosed via the Internet Concerning the Notice of Convocation of the 124th Annual General Meeting of Shareholders

**<Business Report>**

Summary of Resolutions Regarding, and the Operational Status of, Systems for Ensuring That the Performance of Duties by Directors Complies with Laws, Regulations and the Company's Articles of Incorporation and for Ensuring the Propriety of Other Operations (Basic Policy Regarding, and Operational Status of, Systems for Ensuring the Appropriate Execution of Business)

**<Consolidated Financial Statements>**

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Non-Consolidated Statement of Changes in Net Assets
Notes to Non-Consolidated Financial Statements

The items listed above are posted on the Company's website on the internet pursuant to the applicable laws and regulations and Article 15 of the Articles of Incorporation of the Company.

DIC Corporation

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# Summary of Resolutions Regarding, and the Operational Status of, Systems for Ensuring That the Performance of Duties by Directors Complies with Laws, Regulations and the Company's Articles of Incorporation and for Ensuring the Propriety of Other Operations (Basic Policy Regarding, and Operational Status of, Systems for Ensuring the Appropriate Execution of Business)

The following is a summary of resolutions of the Board of Directors regarding, and the operational status of, the aforementioned systems.

## I. Basic Concepts Regarding Internal Controls

In striving to conduct its operations in accordance with The DIC Way, the DIC Group has prepared and operates a system of internal controls based on the Companies Act of Japan to ensure the appropriateness of its operations.

Note: The DIC Way was formulated to represent the DIC Group's fundamental management philosophy and includes the Group's mission: "We create enhanced value and utilize innovation to introduce socially responsible and sustainable products."

## II. DIC Group Internal Controls System

1. Systems for Ensuring that the Performance of Duties by Directors and Employees of the DIC Group Complies with Laws, Regulations and the Articles of Incorporation
   (1) The Company shall prepare regulations for meetings of the Board of Directors and regulations for *Ringi* (approval by written circular) and shall clarify decision-making authority within the DIC Group.
   (2) The Company shall appoint Outside Directors and shall work to bolster monitoring functions with regard to management.
   (3) The Company shall work to set forth the DIC Group Code of Business Conduct as the standard regarding compliance, which Directors and employees of the DIC Group should comply with and disseminate it.
   (4) The Company shall establish an internal auditing department and shall monitor the status of the implementation and operation of internal control systems of the DIC Group on a periodic basis. Important matters that are discovered through such monitoring and the status of improvements shall be reported to Representative Directors on a periodic basis, and those matters of particular importance are to be reported to the Board of Directors.
   (5) The Company shall, as a part of its compliance activities, establish an internal notification system as a channel available for the employees of the DIC Group and set up multiple notification channels independent from channels for communication used in the conduct of business. The Company shall prepare a structure that can quickly respond to domestic and international notifications. In addition, a system shall be put into place so that any person making a notification will not suffer any detriment.
   (6) The Company shall sever any and all connections with antisocial elements and shall collaborate with legal counsel and the police, among others, in making firm responses to unwarranted demands, etc., made of the DIC Group by such antisocial elements.

【Operational Status】

The Company has clarified decision-making authority within the DIC Group via the Articles of Incorporation, regulations for meetings of the Board of Directors, regulations for *Ringi* and regulations for authorization, etc., in order to ensure the performance of duties and enhancement of supervisory functions, all of which it reviews on an ongoing basis. In fiscal year 2021, the Company partially revised its Policy on Internal Controls. The Company amended its regulations for corporate audits in accordance with the modification on the Corporate Governance Code.

The Company has nominated three individuals to serve as Outside Directors, and the ratio of Outside Directors to the total number of Directors has been not less than one-third.

E-learning programs regarding the DIC Group Code of Business Conduct, quality compliance and the Group's anti-bribery policy, were implemented group-wide.

The Company's internal audit function monitored the status of implementation and operation of the internal controls system and reported to the Representative Directors on important matters discovered through this process.

Reports made through the DIC Group's whistle-blowing system were handled appropriately by, among others, conducting investigations and hearings.

2. Systems for Ensuring That Duties of Directors of the Group Are Performed Efficiently

(1) In order to ensure the duties of Directors are performed properly and efficiently within the DIC Group, the Company shall establish regulations regarding company organization and authority.

(2) In order to expedite the conduct of business and clarify responsibilities, the Company shall introduce an Executive Officer system. In addition to resolving important business affairs of the DIC Group in accordance with the Articles of Incorporation and regulations of the Board of Directors, the Board of Directors shall also supervise the status of Executive Officers' business conduct.

(3) The Company shall formulate management plans and the annual budget based upon management policies and management strategies of the DIC Group and, through dissemination of the same, ensure common goals are shared within the DIC Group. The Company shall make progress reports to the Board of Directors.

【Operational Status】

The Company made important business decisions based on regulations for meetings of the Board of Directors, regulations for *Ringi* and other regulations. The executive officer system ensured efficiency in decision making while the Board of Directors used business execution reports to oversee the execution of duties by Executive Officers. The Board of Directors summarized the "DIC111" which is the final year of implementation, and discussed the contents of the long-term management plan "DIC Vision 2030" for several sessions. Regarding the annual budget, steps were taken to enhance awareness, including holding in-house briefings and posting related information on the Company's internal portal site, in addition to the monthly progress reports that were made available to the Board of Directors.

3. Systems for the Preservation and Management of Information Pertaining to the Performance of Duties by Directors
   (1) Information pertaining to the performance of duties by Directors, such as minutes of meetings of the Board of Directors and *Ringi* documents, shall be recorded, retained and managed appropriately based upon the regulations for document management.
   (2) The Company shall establish regulations for systems of information management and shall prepare a system for preventing leakage of confidential information of the DIC Group.

【Operational Status】

Information related to the performance of duties by Directors is documented in a printed or electronic format, along with related materials used for management decisions, etc. This information is retained for the period stipulated in the regulations for document management and managed rigorously in accordance with the regulations for confidential information management and other regulations after information security measures have been taken.

In addition, this information is retained in a manner that ensures it can be made available promptly for review if a request is received from a Director, Audit & Supervisory Board Member or other pertinent individual.

4. Regulations and Other Systems Relating to the Management of Risk of Loss to the DIC Group
   (1) The Company shall formulate a risk management policy and shall identify, assess, prioritize and address any risks that may have a significant impact on management of the DIC Group.
   (2) The Company shall establish a risk management system for the DIC Group and shall ensure its effectiveness by repeating the plan–do–check–act (PDCA) cycle.

【Operational Status】

In line with its Risk Management Policy, the Company confirmed that the Sustainability Working Group had reviewed high-priority risk themes in accordance with changes in the operating environment, and confirmed that effective countermeasures against risks had been implemented for each theme. In response to COVID-19, the Company continued working to prevent the spread of infection and ensure the effective execution of business, including by actively promoting work styles that include the use of telework arrangements, as well as restricting business travel and group dining worldwide. In addition, the Company took steps in accordance with changing conditions, including arranging for polymerase chain reaction (PCR) tests for all employees in manufacturing positions and on-site workplace vaccination clinics.

As part of its business continuity management program, the Company carried out an annual update of its business continuity plans (BCPs), as well as launched the DIC BC Portal, a dedicated business continuity portal, and conducted headquarters task force–led drills.

5. Other Systems for Ensuring Proper Operations of the DIC Group
   (1) The Company shall determine an administrative department for each subsidiary from the standpoints of the conduct of business and business management and shall supervise business affairs by dispatching a director to each subsidiary.
   (2) The Company shall clarify important matters, including those pertaining to subsidiaries, that must be approved by or reported to the Company.

【Operational Status】

In addition to dispatching Directors to each subsidiary from the pertinent headquarters' administrative department, the Company receives reports on business plans and operating conditions from subsidiaries on a regular basis. Pertinent headquarters' administrative departments and other relevant departments collaborate to supervise the subsidiaries under their jurisdiction. In addition, the Company has established regulations regarding authority within the DIC Group pertaining to matters that must be approved by or reported to the Company. The Company has also established management regulations and clarified management support structures for Group companies.

6. Systems for Ensuring that Audits by Audit & Supervisory Board Members are Conducted Effectively

(1) In addition to attending meetings of the Board of Directors and other important meetings, Audit & Supervisory Board Members may inspect the contents of *Ringi* approvals at any time.

(2) In addition to meeting with Representative Directors on a periodic basis to exchange information and opinions, Audit & Supervisory Board Members shall strive to foster close cooperation by holding liaison meetings on a periodic basis with the internal auditing department, the Accounting Auditor and the Audit & Supervisory Board Members of subsidiaries.

(3) Directors and employees of the DIC Group shall report facts that could cause substantial damage to the Company and matters designated by the Audit & Supervisory Board as "Matters to be Reported to Audit & Supervisory Board Members or the Audit & Supervisory Board" to Audit & Supervisory Board Members or the Audit & Supervisory Board.

(4) The DIC Group shall not treat persons who report to Audit & Supervisory Board Members unfavorably because of the report.

(5) The Company shall establish an Audit & Supervisory Board Members' Office and shall assign dedicated personnel to assist Audit & Supervisory Board Members in their duties. Such personnel shall obey only the directions and orders of the Audit & Supervisory Board Members. Evaluations shall be conducted by Audit & Supervisory Board Members and matters such as personnel changes and disciplinary actions will require the prior consent of Audit & Supervisory Board Members.

(6) The Company shall pay the costs and fees that Audit & Supervisory Board Members need to perform their duties.

【Operational Status】

Audit & Supervisory Board Members attended important meetings, including those of the Board of Directors and the Executive Committee, and reviewed the contents of *Ringi* approvals as necessary. In addition, Audit & Supervisory Board Members held liaison meetings on a periodic basis with Representative Directors, the internal auditing department and the Accounting Auditor to exchange opinions. Directors and employees reported on matters designated by the Audit & Supervisory Board, as well as on other important matters.

Audit & Supervisory Board Members also met with the Audit & Supervisory Board Members of subsidiaries in Japan on a periodic basis. Overseas, Audit & Supervisory Board Members participated in meetings of the Board of Directors of regional headquarters, as well as conducted audits, taking into account materiality and risk, which were remote for the fiscal year 2021.

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# Consolidated Statement of Changes in Net Assets

(Millions of yen)

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

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

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# Notes to Consolidated Financial Statements

## I. Significant Accounting Policies

1. Scope of Consolidation
   Number of consolidated subsidiaries 168
   (Sun Chemical Group Coöperatief U.A., DIC (CHINA) CO., LTD., DIC Asia Pacific Pte Ltd, Colors & Effects USA LLC, SEIKO PMC CORPORATION, DIC INVESTMENTS JAPAN, LLC., DIC Graphics Corporation, and others)

   Change in scope of consolidation
   Increase: 20 companies Colors & Effects USA LLC and others (acquisition of shares, etc.)
   Decrease: 4 companies DIC Imaging Products USA LLC and others (liquidation, etc.)

2. Scope of Equity Method
   Number of companies accounted for by the equity method 20
   (TAIYO HOLDINGS CO. LTD. and others)

   Change in scope of equity method
   Increase: 1 company CIMO Compagnie Industrielle de Monthey S.A. (acquisition of shares, etc.)
   Decrease: 1 company KANGNAM CHEMICAL CO., LTD. (refund due to paid-in capital reduction)

3. Accounting Period of Consolidated Subsidiaries
   The closing date of the consolidated subsidiaries is the same as the consolidated closing date.

4. Accounting Policies
   (1) Methods and Standards for Valuation of Significant Assets
   (a) Securities
   Available-for-sale securities are carried at fair value as of the balance sheet date, with unrealized gain and loss, net of applicable taxes, reported in a separate component of net assets. The cost of securities sold is calculated by the moving-average method.

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

   (b) Derivatives
   Derivatives are carried at fair value.

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

(2) Method for Depreciation of Non-Current Assets

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

The Company and its consolidated domestic subsidiaries:

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

Consolidated foreign subsidiaries:

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

The principal useful lives are as follows:

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

(b) Intangible assets (excluding leased assets)

Intangible assets are amortized by the straight-line method.

(c) Leased assets

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

(d)Right-of-use assets

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

(3) Standards for Provisions

(a) Allowance for doubtful accounts

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

(b) Provision for bonuses

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

(4) Retirement and Pension Plans

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

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

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

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

(5) Foreign Currency Translation

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

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

(6) Method for Hedge Accounting

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

(7) Consumption Taxes

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

(8) Consolidated taxation system

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

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

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

5. Amortization of Goodwill

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

6. Additional Information

*Board Benefit Trust (BBT)*

With regard to the compensation for executive officers, as well as directors who concurrently serve as executive officers (the "Target Officers"), the Company introduced a new performance-based stock compensation plan called Board Benefit Trust (BBT) (the "Plan") from the fiscal year ended December 31, 2017. The purpose of the Plan is to further clarify the linkage between the compensation of the Target Officers, and corporate performance and value of the Company's shares. The intended result is strengthening the Target Officers' awareness of their contributions to the medium- to long-term improvement of corporate performance and value.

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

(1) Outline of the transactions

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

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

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

*Accounting estimates associated with the spread of COVID-19*

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

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

## II. Notes to Change in Presentation

Application of "Accounting Standard for Disclosure of Accounting Estimates"

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

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## III. Notes to Accounting Estimates

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Recoverability of deferred tax assets

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

Deferred Tax Assets ¥17,320 million

(The balance before offsetting deferred tax liabilities is 42,168 million yen.)

The amount of net operating loss carryforwards and future deductible temporary difference for which deferred tax assets have not been recognized is 39,818 million yen.

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

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

In recognizing deferred tax assets, the Group considers the extent to which it is probable that future taxable income will be available against which the deductible temporary differences and unused tax loss carryforwards can be utilized.

Among the subsidiaries, Sun Chemical Group, which is mainly based in Americas and Europe, applies the guidance ASC 740, “Income Taxes”. Sun Chemical Group recorded deferred tax assets of 33,207 million JPY, before offsetting against deferred tax liabilities. The amount occupies a high percentage of the consolidated total.

The amount of net operating loss carryforwards and future deductible temporary differences for which deferred tax assets have not been recognized is 35,919 million yen.

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

The amount of recoverable deferred tax assets in the Group is estimated based on not only past taxable income levels, but also forecasts of future taxable income based on business plan during the deductible period of deductible temporary differences and unused tax loss carry forward.

For the business plan, expected sales revenue, raw material price and foreign exchange market trends are used as significant assumptions.

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

The assumptions may be affected by changes in uncertain economic conditions, including the impact of the COVID-19 pandemic. If the results differ from initial estimates, this could have a significant impact, as it will be necessary to record or reverse deferred tax assets in the consolidated financial statements for the following fiscal year.

## IV. Notes to Consolidated Balance Sheet

| | (Millions of yen) |
|---|---|
| 1. Accumulated Depreciation of Property, Plant and Equipment | 596,934 |

2. Assets Pledged for Collateral and Secured Liabilities

(1) Assets pledged for collateral

| | (Millions of yen) |
|---|---|
| Cash and deposits | 16 |
| Notes and accounts receivable-trade | 3,572 |
| Inventories | 2,337 |
| Buildings and structures | 1,009 |
| Land | 2,488 |
| Non-current assets other | 2 |
| Total | 9,424 |

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(2) Secured liabilities

(Millions of yen)

| | |
|---|---|
| Current portion of long-term loans payable | 83 |
| Long-term loans payable | 621 |
| Total | 704 |

3. Contingent Liabilities and Others

(Millions of yen)

| | |
|---|---|
| (1) Liability for guarantee | 697 |
| (2) Trade notes discounted | 15 |

## V. Notes to Consolidated Statement of Changes in Net Assets

(Shares)

1. Number of Common Stock Issued at the End of Period 95,156,904
2. Cash Dividends

(a) Amount of cash dividends paid

| Resolution | Type of stock | Dividends in total (Millions of yen) | Cash dividends per share (Yen) | Record date | Dividend payment |
|---|---|---|---|---|---|
| March 30, 2021 Annual General Meeting of Shareholders | Common stock | 4,739 | 50 | December 31, 2020 | March 31, 2021 |
| August 10, 2021 Meeting of the Board of Directors | Common stock | 4,739 | 50 | June 30, 2021 | September 1, 2021 |
| Total | | 9,479 | | | |

Notes: 1. The total amount of dividends resolved at the annual general meeting of shareholders held on March 30, 2021 includes dividends of ¥7 million for the Company's shares held by the Board Benefit Trust (BBT).
2. The total amount of dividends resolved at the meeting of the board of directors held on August 10, 2021 includes dividends of ¥7 million for the Company's shares held by the Board Benefit Trust (BBT).

(b) Amount of cash dividends to be paid

| Resolution | Type of stock | Funds for dividends | Dividends in total (Millions of yen) | Cash dividends per share (Yen) | Record date | Dividend payment |
|---|---|---|---|---|---|---|
| March 29, 2022 Annual General Meeting of Shareholders | Common stock | Retained earnings | 4,739 | 50 | December 31, 2021 | March 30, 2022 |

Note: The total amount of dividends to be resolved at the annual general meeting of shareholders held on March 29, 2022 includes dividends of ¥7 million for the Company's shares held by the Board Benefit Trust (BBT).

## VI. Notes to Financial Instruments

1. Status of Financial Instruments

The Company and its consolidated subsidiaries are managing 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-term and long-term bank borrowings, the terms of which are determined based on financial market conditions and balance of account at the time.

The Group has derivatives which consist of forward foreign currency contracts, currency options, currency swaps and interest-swaps. For commodities, commodity swaps are used. Derivatives are not used for trading or speculative purposes, but for risk aversion.

The Company and its consolidated subsidiaries apply hedge accounting when the derivative qualifies as a hedging instrument.

2. Fair Value of Financial Instruments

The following table presents the carrying amounts and the fair value of financial instruments at December 31, 2021. Financial instruments whose fair value is not reliably measured are excluded from the table below.

(Millions of yen)

| | | Carrying Amount | Fair Value | Difference |
|---|---|---|---|---|
| ① | Cash and deposits | 38,253 | 38,253 | － |
| ② | Notes and accounts receivable-trade | 237,916 | 237,916 | － |
| ③ | Investment securities | | | |
| | Stocks of affiliates | 23,387 | 39,096 | 15,709 |
| | Available-for-sale securities | 15,502 | 15,502 | － |
| Assets total | | 315,058 | 330,767 | 15,709 |
| ① | Notes and accounts payable-trade | 145,816 | 145,816 | － |
| ② | Short-term loans payable | 10,437 | 10,437 | － |
| ③ | Current portion of long-term loans payable | 37,131 | 37,120 | (11) |
| ④ | Current portion of bonds payable | 20,000 | 20,006 | 6 |
| ⑤ | Lease obligations (current) | 1,092 | 1,092 | － |
| ⑥ | Income taxes payable | 5,640 | 5,640 | － |
| ⑦ | Bonds payable | 140,000 | 140,204 | 204 |
| ⑧ | Long-term loans payable | 171,443 | 171,614 | 171 |
| ⑨ | Lease obligations (non-current) | 4,112 | 4,291 | 179 |
| Liabilities total | | 535,671 | 536,220 | 549 |
| Derivative financial instruments (*1) | | | | |
| ① | Hedge accounting - Not applied | (49) | (49) | － |
| ② | Hedge accounting - Applied | 19 | 19 | － |
| Derivative financial instruments total | | (30) | (30) | － |

(*1) Figures are net of debts and credits that arise from derivative financial instruments. Net debt amounts are indicated in parentheses.

(Note 1) Valuation techniques used to estimate the fair value of financial instruments, and information on marketable securities and derivative financial instruments are as follows:

<u>Assets</u>

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

The fair value of these accounts is measured at the carrying amount because their fair values approximate their carrying amounts as these amounts are settled in a short period of time.

③ Investment securities

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

<u>Liabilities</u>

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

The fair value of these accounts is measured at the carrying amounts because their fair values approximate their carrying amounts as these amounts are settled in a short period of time.

③ Current portion of long-term loans payable, ⑧ 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 swap is based on present value by totaling the amount of principal and interest, together with the related interest rate swap, 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 is measured at the carrying amount because their fair value approximates their carrying amounts, due to the fact that the market rate of interest is quickly factored in while the 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.

④ Current portion of bonds payable, ⑦ Bonds payable

The fair value of bonds payable is measured at the quoted market prices.

⑨ 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.

<u>Derivative Financial Instruments</u>

The fair value of derivative financial instruments is determined at the quoted price obtained from the financial institutions or the quoted market price at the stock exchange.

Exchange contracts and others appropriated to specific debts and credits are settled together with the foreign currency receivable and payable subject to the hedged transaction. Accordingly, the fair value of such exchange contracts is reflected in the accounts of foreign currency receivable and payable.

If interest rate swaps qualify for hedge accounting and meet certain specific criteria, they will not be measured at market value. Therefore, the fair value of such interest rate swaps is not accounted for in the account of loans payable.

(Note 2) Financial instruments whose fair value is not reliably measured

There are no market prices for non-listed stocks and others (carrying amount of ¥20,400 million) whose future cash flows cannot be estimated. The fair value of such non-listed stocks and others is not reliably determined and thus excluded from “③ Investment securities”.

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## VII. Per Share Information

| | (Yen) |
|---|---|
| Shareholders' equity per share | 3,654.61 |
| Earnings per share | 46.12 |

(Notes)

1. Since the fiscal year ended December 31, 2017, the Company has introduced the Board Benefit Trust (BBT). The shares held by the trust are recorded under net assets as treasury shares. The number of treasury shares excluded from the number of shares issued as of the balance sheet date used for the calculation of shareholders' equity per share includes the number of shares held by the trust. The number of treasury shares excluded from the weighted-average number of shares issued during the fiscal year used for the calculation of earnings per share includes the number of shares held by the trust.
2. The number of treasury shares excluded from the calculation of shareholders' equity per share was 131,700 as of December 31, 2021, while the weighted-average number of treasury shares issued during the fiscal year excluded from the calculation of earnings per share was 132,908 for the fiscal year ended December 31, 2021.

## VIII. Business combinations

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

1. Overview of the business combination

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

2. Objectives of the business combination

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

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

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

3. Period for which the financial results of the acquired business and companies are included in the consolidated financial statements for the fiscal year ended December 31, 2021
   July 1, 2021–December 31, 2021

4. Cost of acquisition and breakdown by type of consideration

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

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

5. Description and amount of major acquisition costs
   Advisory fees and others ¥5,299 million

6. Amount, reason for recognition, method and period of amortization of goodwill

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

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

| | |
|---|---|
| Contracts and related assets | ¥5,632 million |
| Trademarks | 3,197 million |
| Technologies and related assets | 2,620 million |
| Others | 1,592 million |
| Total | ¥13,041 million |

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

| | |
|---|---|
| Contracts and related assets | 12 years |
| Trademarks and trade names | 20 years |
| Technologies and related assets | 15 years |
| Others | 20 years |
| Total | 15 years |

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

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

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

## IX. Others

Japanese yen amounts are rounded to the nearest million.

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# Non-Consolidated Statement of Changes in Net Assets

(Millions of yen)

| | Shareholders' equity | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Capital surplus | | Retained earnings | | | | | | | | |
| | | | | Other retained earnings | | | | | | | | |
| | Capital stock | Legal capital surplus | Total capital surplus | Reserve for tax deferment of subsidies | Reserve for tax deferment of insurance gains | Reserve for special account for tax deferment of insurance gains | Reserve for tax deferment of capital gains from eminent domain | Reserve for reduction entry of replaced property | Retained earnings brought forward | Total retained earnings | Treasury shares | Total shareholders' equity |
| **Balance at January 1, 2021** | **96,557** | **94,156** | **94,156** | **120** | **7** | **154** | **834** | **4,360** | **102,433** | **107,907** | **(1,800)** | **296,820** |
| **Change in FY 2021** | | | | | | | | | | | | |
| Reversal of reserve for tax deferment of subsidies | | | | (19) | | | | | 19 | – | | – |
| Provision of reserve for tax deferment of insurance gains | | | | | 25 | | | | (25) | – | | – |
| Reversal of reserve for tax deferment of insurance gains | | | | | (5) | | | | 5 | – | | – |
| Reversal of reserve for special account for tax deferment of insurance gains | | | | | | (25) | | | 25 | – | | – |
| Reversal of reserve for tax deferment of capital gains from eminent domain | | | | | | | (20) | | 20 | – | | – |
| Reversal of reserve for reduction entry of replaced property | | | | | | | | (224) | 224 | – | | – |
| Dividends from surplus | | | | | | | | | (9,479) | (9,479) | | (9,479) |
| Net income | | | | | | | | | 29,811 | 29,811 | | 29,811 |
| Purchase of treasury shares | | | | | | | | | | | (9) | (9) |
| Disposal of treasury shares | | | | | | | | | | | 29 | 29 |
| Net changes of items other than shareholders' equity | | | | | | | | | | | | |
| **Total change in FY 2021** | **–** | **–** | **–** | **(19)** | **20** | **(25)** | **(20)** | **(224)** | **20,600** | **20,332** | **20** | **20,352** |
| **Balance at December 31, 2021** | **96,557** | **94,156** | **94,156** | **101** | **27** | **129** | **814** | **4,136** | **123,032** | **128,239** | **(1,780)** | **317,172** |

| | Valuation and translation adjustments | | | |
|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Total valuation and translation adjustments | Total net assets |
| **Balance at January 1, 2021** | **2,688** | **581** | **3,269** | **300,089** |
| **Change in FY 2021** | | | | |
| Reversal of reserve for tax deferment of subsidies | | | | – |
| Provision of reserve for tax deferment of insurance gains | | | | – |
| Reversal of reserve for tax deferment of insurance gains | | | | – |
| Reversal of reserve for special account for tax deferment of insurance gains | | | | – |
| Reversal of reserve for tax deferment of capital gains from eminent domain | | | | – |
| Reversal of reserve for reduction entry of replaced property | | | | – |
| Dividends from surplus | | | | (9,479) |
| Net income | | | | 29,811 |
| Purchase of treasury shares | | | | (9) |
| Disposal of treasury shares | | | | 29 |
| Net changes of items other than shareholders' equity | 2,359 | (3,508) | (1,150) | (1,150) |
| **Total change in FY 2021** | **2,359** | **(3,508)** | **(1,150)** | **19,203** |
| **Balance at December 31, 2021** | **5,047** | **(2,927)** | **2,119** | **319,291** |

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# Notes to Non-Consolidated Financial Statements

## I. Significant Accounting Policies

1. Methods and Standards for Valuation of Securities
   Securities of subsidiaries and affiliates:
      Securities of subsidiaries and affiliates are stated at cost calculated by the moving-average method.

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

      Non-marketable securities
         Non-marketable securities are carried at cost calculated by the moving-average method.

2. Methods and Standards for Valuation of Derivatives
   Derivatives are carried at fair value.

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

4. Method for Depreciation of Non-Current Assets

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

| | |
|---|---|
| Buildings, tools, and facilities attached to buildings and structures acquired on or after April 1, 2016: | Straight-line method |
| Furniture and fixtures: | Declining-balance method |
| Other property, plant and equipment: | Declining-balance method, except for certain assets to which the straight-line method is applied |

The principal useful lives are as follows:

| | |
|---|---|
| Buildings | 8 - 50 years |
| Machinery and equipment | 8 years |

(2) Intangible assets (excluding leased assets)
Intangible assets are amortized by the straight-line method.
With regard to software for internal use, the straight-line method is applied based on a useful life of 5 years.

(3) 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.

5. Foreign Currency Translation

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

6. Standards for Provisions

(1) Allowance for doubtful accounts

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

(2) Provision for bonuses

Provision for bonuses is provided based on the estimated payments of bonuses to employees and executive officers.

(3) Provision for directors' bonuses

Provision for directors' bonuses is provided based on the estimated payments of bonuses.

(4) Provision for environmental measures

Provision for environmental measures is provided based on the estimated payments of soil pollution cleanup loss.

(5) Provision for retirement benefits (prepaid pension cost)

Provision for employees' and executive officers' retirement benefits is provided based on the retirement benefit obligations and the fair value of pension plan assets as of the balance sheet date.

(a) Method of attributing expected retirement benefits to each period

In calculating retirement benefit obligations, the Company applies a method of attributing expected retirement benefits to each period on a benefit formula basis.

(b) Accounting for actuarial gains/losses and past service costs

Past service costs are amortized in the accounting periods when they accrue. Actuarial gains and losses are amortized in the succeeding years by the straight-line method over the average remaining service period of the eligible employees (13 years).

(6) Provision for stock payments

Provision for stock payments is provided based on the estimated amount of stock payments obligations as of the balance sheet date to prepare for the payments of the performance-based stock compensation in accordance with the Rules of Officer Share Benefit.

(7) Provision for loss on business of subsidiaries and affiliates

Provision for loss on business of subsidiaries and affiliates is provided based on the consideration of the asset conditions of subsidiaries and affiliates.

7. Method for deferred assets

Bond issuance cost is expensed upon payment.

8. Method for Hedge Accounting

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

9. Method for Consumption Taxes

Revenues and expenses are recorded at amounts exclusive of consumption taxes. Nondeductible consumption taxes are treated as expenses in the current fiscal year.

10. Consolidated taxation system

The Company has adopted the consolidated taxation system.

11. Tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

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

12. Retirement and Pension Plans

The accounting treatment for previously unrecognized actuarial gains and losses on the non-consolidated financial statements is different from the consolidated financial statements. On the non-consolidated balance sheet, pension assets are deducted from retirement benefit obligations adjusted with previously unrecognized actuarial gains and losses, and the net amount is recognized as provision for retirement benefits or prepaid pension cost.

13. Additional Information

*(Board Benefit Trust (BBT))*

The notes concerning the transaction of delivering the Company’s own stock to executive officers as well as directors who concurrently serve as executive officers through the Board Benefit Trust (BBT) are omitted, as “6. Additional Information” of the notes to consolidated financial statements contains the same description.

*(Accounting estimates associated with the spread of COVID-19)*

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

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

## II. Notes to Changes in Presentation

1. Application of "Accounting Standard for Disclosure of Accounting Estimates"
   The Company has adopted the "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) in the non-consolidated financial statements from the end of the fiscal year ended December 31, 2021, and has included "Notes to accounting estimates" therein.

2. Non-Consolidated Balance Sheet
   With the aim of improving clarity, "Electronically recorded monetary claims," included in "Notes receivable–trade" under Current assets in the fiscal year ended December 31, 2020, is presented as a separate line item from the fiscal year ended December 31, 2021. The amount of "Electronically recorded monetary claims" in the non-consolidated balance sheet for the fiscal year ended December 31, 2020 is ¥3,017 million.

3. Non-Consolidated Statement of Income
   "Commission expenses," which was presented as a separate line item within non-operating expenses in the fiscal year ended December 31, 2020, is included in "Other," because it has become largely immaterial. The amount of "Commission expenses" included in "Other" in the non-consolidated balance sheet for the fiscal year ended December 31, 2021 is ¥90 million.

## III. Notes to Accounting Estimates

Stocks of subsidiaries and affiliates

1. Amount recorded in the non-consolidated financial statements for the fiscal year ended December 31, 2021
   Stocks of subsidiaries and affiliates ¥481,447 million

2. Information on the significant accounting estimate for the identified items
   (1) Method of calculating the amounts recognized in the non-consolidated financial statements for the fiscal year ended December 31, 2021
   Of the ¥481,447 million in stocks of subsidiaries and affiliates recorded in the non-consolidated balance sheet for the fiscal year ended December 31, 2021, ¥400,696 million represents investments in DIC INVESTMENTS JAPAN, LLC., which accounts for 48% of total assets. DIC INVESTMENTS JAPAN, LLC. aims to invest in and extend loans efficiently to Group companies, and its assessment of the cost of such an investment is impacted by the operating results of the target company. The Company assesses the cost of investments in subsidiaries and affiliates by comparing cost of acquisition with the actual value of shares. In principle, an impairment loss is recognized to reduce the cost to its substantial value if the substantial value is significantly lower than the cost unless sufficient evidence indicates that a recovery is likely.

   (2) Impact on the non-consolidated financial statements for the fiscal year ending December 31, 2022
   While the fair value of the stock of DIC INVESTMENTS JAPAN, LLC., did not fall substantially below the cost of acquisition as of December 31, 2021, the Company's performance was impacted by the sharp deterioration of economic conditions and the operating environment. This may significantly affect the non-consolidated financial statements of the Company for the fiscal year ending December 31, 2022.

## IV. Notes to Non-Consolidated Balance Sheet

| | (Millions of yen) |
|---|---|
| 1. Accumulated Depreciation of Property, Plant and Equipment | 293,944 |

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2. Contingent Liabilities and Others

(1) Liability for guarantee

(Millions of yen)

| Guaranteed party | Amount | Contents of guarantee |
|---|---|---|
| DIC Graphics Corporation | 2,279 | Purchase liabilities |
| DIC Decor, Inc. | 1,720 | Purchase liabilities |
| DIC Plastics, Inc. | 1,141 | Purchase liabilities |
| CAST FILM JAPAN CO., LTD. | 675 | Loans from financial institutions |
| Two companies and others | 409 | Loans from financial institutions and others |
| Total | 6,224 | |

(2) Trade notes discounted 15

(Millions of yen)

| | |
|---|---|
| 3. Short-term receivables from subsidiaries and affiliates | 38,211 |
| Short-term liabilities to subsidiaries and affiliates | 73,575 |
| Long-term liabilities to subsidiaries and affiliates | 235 |

## V. Notes to Non-Consolidated Statement of Income

Transactions with subsidiaries and affiliates

(Millions of yen)

| | |
|---|---|
| Sales | 50,214 |
| Purchases | 31,811 |
| Other transactions | 13,833 |

## VI. Notes to Non-Consolidated Statement of Changes in Net Assets

Type and number of treasury stock, at cost

(Shares)

| | As of January 1, 2021 | Increase in FY 2021 | Decrease in FY 2021 | As of December 31, 2021 |
|---|---|---|---|---|
| Common stock | 506,322 | 2,928 | 7,300 | 501,950 |
| Total | 506,322 | 2,928 | 7,300 | 501,950 |

(Notes)
1. The shares held by the Board Benefit Trust (131,700 shares) are included in the number of treasury shares.
2. The increase of treasury shares of common stock (2,928 shares) was due to the purchase of odd-lot shares.
3. The decrease of treasury shares of common stock (7,300 shares) was due to the benefit of the Company’s shares by the Board Benefit Trust (BBT).

## VII. Tax Effect Accounting

A breakdown of the major components of deferred tax assets and liabilities as of December 31, 2021 is as follows:

| | (Millions of yen) |
|---|---|
| Stocks of subsidiaries and affiliates | 2,742 |
| Provision for bonuses | 1,315 |
| Deferred gains or losses on hedges | 1,307 |
| Others | 4,235 |
| Subtotal deferred tax assets | 9,599 |
| Valuation allowance | (3,802) |
| Total deferred tax assets | 5,797 |

| | (Millions of yen) |
|---|---|
| Deferred income taxes related to gains from property, plant and equipment | (2,296) |
| Valuation difference on available-for-sale securities | (2,196) |
| Foreign exchange loss from foreign currency borrowings | (1,307) |
| Others | (1,367) |
| Total deferred tax liabilities | (7,166) |
| Total deferred tax assets (net) | (1,369) |

## VIII. Related-Party Transactions

1. Related Companies

(Millions of yen)

<table>
<tr><th rowspan="2">Attribution</th><th rowspan="2">Name of related-party</th><th rowspan="2">Ownership of voting rights</th><th rowspan="2">Relation with related parties</th><th rowspan="2">Contents of transaction</th><th rowspan="2">Amount of transaction (Note 1)</th><th colspan="2">Balance at year-end</th></tr>
<tr><th>Account</th><th>Amount (Note 2)</th></tr>
<tr><td rowspan="3">Subsidiaries</td><td rowspan="2">DIC Graphics Corporation</td><td rowspan="2">Owning Direct 66.6%</td><td rowspan="2">Sales of raw materials and others<br>Dispatch of officer</td><td>Sales of raw materials and others (Note 3)</td><td>16,479</td><td>Accounts receivable-other</td><td>4,906</td></tr>
<tr><td>Loan transaction (Note 4)</td><td>16,134</td><td>Short-term loans payable</td><td>14,171</td></tr>
<tr><td>DIC INVESTMENTS JAPAN, LLC.</td><td>Owning Direct 100%</td><td>Loan transaction<br>Dispatch of officer</td><td>Loan transaction (Note 4)</td><td>35,467</td><td>Short-term loans payable</td><td>35,544</td></tr>
</table>

(Notes)

1. Excluding consumption taxes.
2. Including consumption taxes.
3. Transaction terms in “Sales of raw materials and others” are determined on an arms-length transaction.
4. Interest rate applied to “loan transactions” is reasonably determined based on the market interest rate.

2. Directors, Corporate Auditors, Major Individual Stockholders and Others

(Millions of yen)

<table>
<tr><th rowspan="2">Attribution</th><th rowspan="2">Name of related-party</th><th rowspan="2">Ownership of voting rights</th><th rowspan="2">Relation with related parties</th><th rowspan="2">Contents of transaction</th><th rowspan="2">Amount of transaction (Note 1)</th><th colspan="2">Balance at year-end</th></tr>
<tr><th>Account</th><th>Amount (Note 2)</th></tr>
<tr><td rowspan="5">Companies where directors and their close relatives owned a majority of the voting rights (Note 3)</td><td>Nissei Real-Estate Co., Ltd.</td><td>—</td><td>Rental of buildings and others</td><td>Payment of rent for buildings and others (Note 4)</td><td>2,210</td><td>Security deposit</td><td>1,830</td></tr>
<tr><td rowspan="2">Dainichi Can Co., Ltd.</td><td rowspan="2">—</td><td rowspan="2">Purchase of metallic containers and others</td><td>Purchase of metallic containers and others (Note 5)</td><td>479</td><td>Electronically recorded obligations, accounts payable-trade, and accounts payable-other</td><td>194</td></tr>
<tr><td>Sales of merchandise and finished goods and offering of service (Note 6)</td><td>52</td><td>Note receivable-trade and Account receivable-trade</td><td>22</td></tr>
<tr><td rowspan="2">Nissin Trading Co., Ltd.</td><td rowspan="2">—</td><td rowspan="2">Purchase of raw materials and others</td><td>Purchase of raw materials and others (Note 7)</td><td>6,971</td><td>Electronically recorded obligations, accounts payable-trade, and accounts payable-other</td><td>1,854</td></tr>
<tr><td>Sale of merchandise and finished goods and offering of service (Note 6)</td><td>3,854</td><td>Accounts receivable-trade and accounts receivable-other</td><td>1,175</td></tr>
</table>

(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 of Nissei Real-Estate Co., Ltd. And Dainichi Can Co., Ltd. and Nissin Trading Co., Ltd. are fully owned by Nissei Real-Estate Co., Ltd.
4. Rental fee of “Rental of buildings and others” is determined based on an arms-length transaction in the neighboring area.
5. Transaction terms in “Purchase of metallic containers and others” is determined based on an arms-length transaction.
6. Transaction terms in “Sales of merchandise and finished goods and offering of service” are determined on an arms-length transaction.
7. Transaction terms in “Purchase of raw materials and others” is determined on an arms-length transaction.

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

## IX. Per Share Information

| | (Yen) |
|---|---|
| Net assets per share | 3,373.21 |
| Earnings per share | 314.94 |

(Note) As described in "VII. Per Share Information" of the notes to consolidated financial statements, the number of treasury shares excluded from the number of shares issued as of the balance sheet date or the weighted-average number of shares issued during the fiscal year includes the number of shares held by the Board Benefit Trust (BBT).

## X. Others

Japanese yen amounts are rounded to the nearest million.