The 125th Business Term

Annual Securities Report

Fiscal year	From	January 1, 2022
	To	December 31, 2022

DIC Corporation

E00901

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

[Cover]

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Part 1 Corporate Information

I. Overview of the Company

1. Key Financial Data and Trends

(1) Consolidated financial data, etc.

Fiscal Year		121st	122nd	123rd	124th	125th
Year end		December 2018	December 2019	December 2020	December 2021	December 2022
Net sales	(Millions of yen)	805,498	768,568	701,223	855,379	1,054,201
Ordinary income	(Millions of yen)	48,702	41,302	36,452	43,758	39,946
Net income attributable to owners of parent	(Millions of yen)	32,028	23,500	13,233	4,365	17,610
Comprehensive income	(Millions of yen)	(3,844)	28,473	20,396	40,596	52,233
Net assets	(Millions of yen)	327,334	343,497	351,364	381,008	421,088
Total assets	(Millions of yen)	801,296	803,083	817,950	1,071481	1,261,637
Shareholders' equity per share	(Yen)	3,158.05	3,304.34	3,364.92	3,654.61	4,088.60
Earnings per share (basic)	(Yen)	338.40	248.29	139.81	46.12	186.05
Earnings per share (diluted)	(Yen)	—	—	—	—	—
Shareholders' equity ratio to total assets	(%)	37.3	38.9	38.9	32.3	30.7
Return on Equity (ROE)	(%)	10.4	7.7	4.2	1.3	4.8
Price-earnings ratio	(Times)	10.0	12.2	18.6	62.8	12.5
Net cash provided by (used in) operating activities	(Millions of yen)	50,990	50,637	54,462	44,812	7,935
Net cash provided by (used in) investing activities	(Millions of yen)	(38,388)	(24,884)	(33,037)	(147,612)	(73,160)
Net cash provided by (used in) financing activities	(Millions of yen)	(11,781)	(26,799)	6,338	99,549	83,948
Cash and cash equivalents at end of the period	(Millions of yen)	18,631	16,690	41,354	37,572	62,560
Number of employees	(Persons)	20,620	20,513	20,242	22,474	22,743

(Notes)

1. Diluted earnings per share are not stated because there are no diluted shares.
2. 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 consolidated balance sheet date used for the calculation of equity per share includes the number of shares held by the trust. The number of treasury shares excluded from the weighted-average number of shares issued during the fiscal year used for the calculation of earnings per share includes the number of shares held by the trust.

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

Fiscal Year		121st	122nd	123rd	124th	125th
Year end		December 2018	December 2019	December 2020	December 2021	December 2022
Net sales	(Millions of yen)	235,394	219,849	195,403	231,550	246,495
Ordinary income	(Millions of yen)	21,294	12,660	7,093	23,966	13,720
Net income	(Millions of yen)	20,616	17,663	6,930	29,811	10,287
Capital stock	(Millions of yen)	96,557	96,557	96,557	96,557	96,557
Number of shares issued (common stock)	(Thousands of shares)	95,157	95,157	95,157	95,157	95,157
Net assets	(Millions of yen)	290,834	297,940	300,089	319,291	318,147
Total assets	(Millions of yen)	675,856	688,683	691,051	829,904	880,585
Shareholders' equity per share	(Yen)	3,072.86	3,147.97	3,170.49	3,373.21	3,361.20
Cash dividends per share [Interim dividend per share]	(Yen)	125.00 [60.00]	100.00 [60.00]	100.00 [50.00]	100.00 [50.00]	100.00 [50.00]
Earnings per share (basic)	(Yen)	217.82	186.62	73.22	314.94	108.68
Earnings per share (diluted)	(Yen)	—	—	—	—	—
Shareholders' equity ratio to total assets	(%)	43.0	43.3	43.4	38.5	36.1
ROE	(%)	7.2	6.0	2.3	9.6	3.2
Price-earnings ratio	(Times)	15.5	16.3	35.6	9.2	21.4
Dividend payout ratio	(%)	57.4	53.6	136.6	31.8	92.0
Number of employees	(Persons)	3,538	3,593	3,662	3,681	3,744
Total shareholder return	(%)	82.0	76.5	68.8	78.0	66.9
[Comparison index: TOPIX including dividends]	(%)	[84.0]	[99.2]	[106.6]	[120.2]	[117.2]
Highest stock price	(Yen)	4,525	3,635	3,130	3,380	3,100
Lowest stock price	(Yen)	3,150	2,534	1,833	2,492	2,206

(Notes)
1. Diluted earnings per share is not stated because there are no diluted shares.
2. 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 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.
3. The highest and lowest share prices were recorded on the Tokyo Stock Exchange (Prime Market) on and after April 4, 2022, and prior to that, on the Tokyo Stock Exchange (1st Section).

2. History

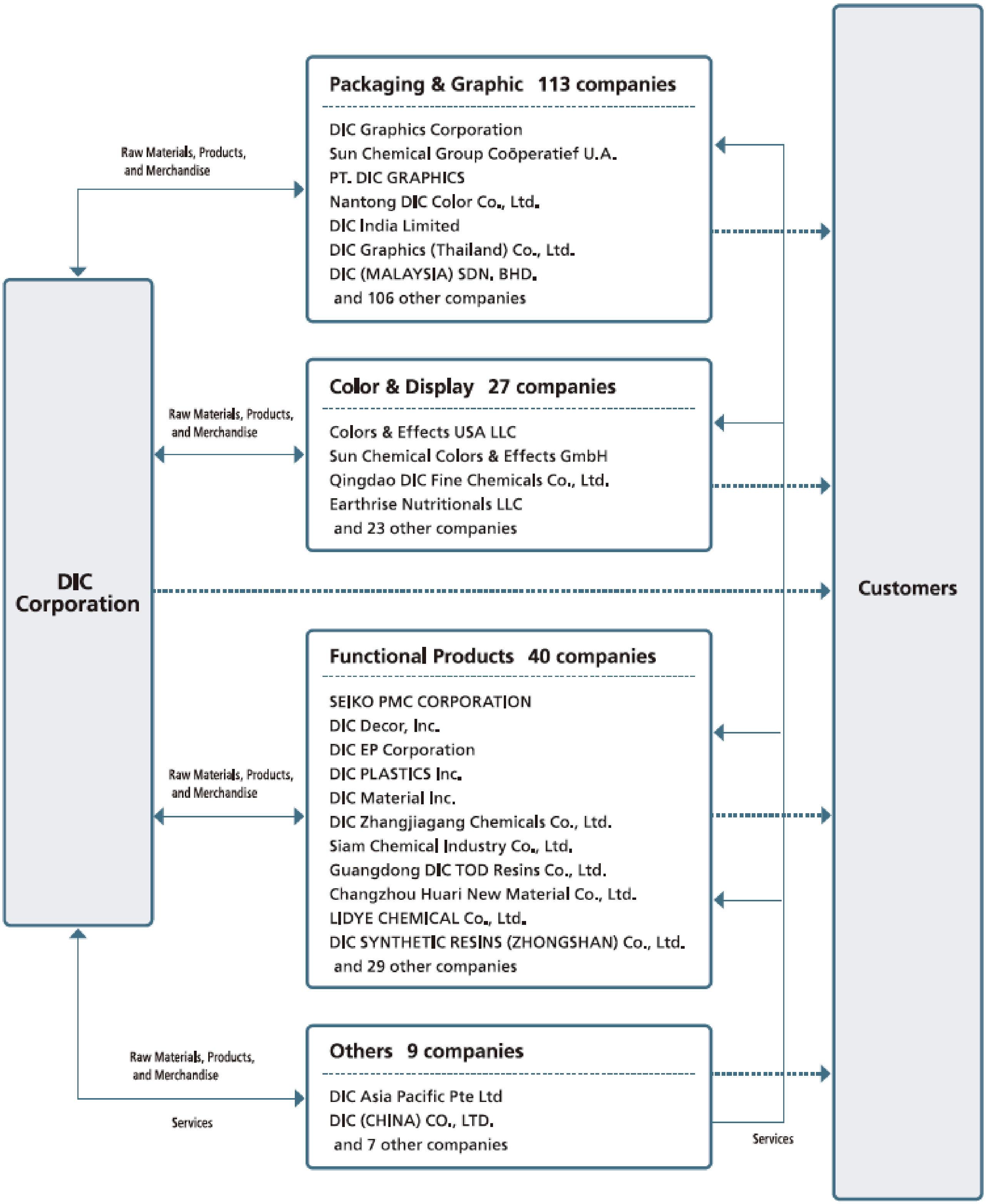
Month/Year	Event
February 1908	Kawamura Ink Manufactory is established. (Changes company name to Kawamura Kijuro Shoten in 1912)
May 1932	Shanghai Branch opened.
February 1937	Incorporates Dainippon Printing Ink Manufacturing Co., Ltd.
March 1945	Head office (main plant) is relocated from Honjo to Itabashi (currently Tokyo Plant).
May 1950	Has initial public offering on the Tokyo Stock Exchange. (Assigned to the First Section of the exchange in 1961.)
February 1952	Japan Reichhold Chemicals Inc. (JRC) is established through a joint venture with Reichhold Chemicals, Inc., a U.S. manufacturer of synthetic resins, to manufacture and sell various types of synthetic resins.
July 1960	Establishes Thailand Wathana Industry as a joint venture and starts printing ink production in the suburbs of Bangkok in 1962.
November 1960	JRC goes public over-the-counter.
November 1961	JRC lists its shares on the Second Section of the Tokyo Stock Exchange.
October 1962	Absorbs JRC and changes company name to Dainippon Ink and Chemicals, Incorporated (DIC).
January 1968	DIC-Hercules is formed as a joint venture between DIC and Hercules Inc. of U.S. to operate paper making chemicals business. (In 1992, DIC purchased Hercules Inc.'s entire stake in DIC-Hercules and renamed it as Japan PMC Corporation. In 2003, Japan PMC merged with Seiko Chemical Industries Co., Ltd. to form SEIKO PMC CORPORATION, now a subsidiary of DIC.)
May 1968	Establishes Singapore Dainippon Ink.
October 1968	Develops production method for epoxy resins using an innovative home-grown technology that makes effective use of petroleum fractions.
May 1973	Develops high-performance, long-lasting nematic liquid crystals (LCs).
March 1974	Siam Chemical industry Co., Ltd. was formed as a joint venture in Thailand.
July 1974	Launches spirulina-based nutritional supplement.
March 1979	Acquires U.S. graphic arts materials manufacturer, Polychrome Corp.
October 1980	Introduced polyphenylene sulfide (PPS) compounds technology from Phillips Petroleum.
December 1986	In a bid to reinforce its global competitiveness, DIC acquires the graphic arts materials division of U.S. firm Sun Chemical.
September 1987	Acquires Reichhold Chemicals Inc. of the United States.
December 1996	Japan PMC (now SEIKO PMC) is listed on the Second Section of the Tokyo Stock Exchange.
December 1997	Establishes Kodak Porychrome Graphics (KPG), a joint venture with Eastman Kodak of United States, to operate printing material business.
December 1999	Acquires Coates, the printing inks division of France's TOTALFINA.
July 2003	Establishes DIC (China) Co., Ltd., a holding company for DIC Group companies in the People's Republic of China (PRC).
April 2005	Redeems capital interest in joint venture KPG.
September 2005	Sells stake in Reichhold.
April 2008	On the occasion of its 100-year anniversary, changes company name to DIC Corporation
October 2009	Establishes DIC Graphics Corporation, joint venture with Dai Nippon Printing Co., Ltd. (DNP) integrating DIC's domestic printing ink business and DNP's printing ink business.
January 2012	SEIKO PMC is listed on the First Section of the Tokyo Stock Exchange.
July 2012	Acquires Benda-Lutz Group and enters the effect pigment business on a full scale.
July 2015	Acquires Kingfisher Colours Limited and enters the cosmetic pigment business on a full scale.
January 2017	Enters capital and business alliance with Taiyo Holdings Co., Ltd.
June 2021	Acquires pigments business (Colors & Effects business) from BASF.
April 2022	Transitions from the First Section of the Tokyo Stock Exchange to the new Prime Market following the reorganization of the exchange's market segments.

3. Description of Business

DIC Group consists of DIC Corporation, 169 subsidiaries and 20 affiliates.
The main businesses of DIC Group are as follows.
The following three segments are the same as those stated in "5. Accounting Status 1. Consolidated Financial Statements (1) Notes."

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

The above is shown in the following structure.



4. Subsidiaries and Affiliates

(1) Consolidated subsidiaries

Name	Location	Capital Stock (Millions of yen)	Description of Business	Ownership of Voting Rights (%)	Details of Relationship
Packaging & Graphic					
DIC Graphics Corporation	Chuo-ku, Tokyo	500	Manufacture and sale of printing inks	66.6	The company purchases raw materials for printing ink from the Company. Interlocking directors, etc.: Yes Guaranteed liabilities: Yes
Sun Chemical Group Coöperatief U.A.	Weesp, Netherlands	— (Eur 2,469,852 thousand)	Investments and loans to Sun Chemical Group companies	100.0 (100.0)	Interlocking directors, etc.: Yes
Sun Chemical Corp.	New Jersey, U.S.A.	US $ 500,001 thousand	Manufacture and sale of printing inks and organic pigments	100.0 (100.0)	Interlocking directors, etc.: Yes
PT. DIC GRAPHICS	Jakarta, Indonesia	IDR 450,969 million	Manufacture and sale of printing inks and organic pigments	100.0 (100.0)	The company manufactures organic pigments that the Company sells. Interlocking directors, etc.: Yes
Nantong DIC Color Co., Ltd.	Nantong, China	RMB 325,609 thousand	Manufacture and sale of printing inks, ink intermediates, and organic pigments	100.0 (47.4)	The company purchases raw materials for printing ink from the Company. Interlocking directors, etc.: Yes
DIC India Limited	Kolkata, India	Rs 91,789 thousand	Manufacture and sale of printing inks	71.8 (71.8)	The company purchases raw materials for printing ink from the Company. Interlocking directors, etc.: Yes
DIC Graphics (Thailand) Co., Ltd.	Bangkok, Thailand	Baht 637,000 thousand	Manufacture and sale of printing inks, fiber and textile colorants, and plastic colorants	100.0 (100.0)	The company purchases raw materials for printing ink from the Company. Interlocking directors, etc.: Yes
DIC (MALAYSIA) SDN. BHD.	Selangor, Malaysia	MYR 57,436 thousand	Manufacture and sale of printing inks	100.0 (100.0)	The company purchases raw materials for printing ink from the Company. Interlocking directors, etc.: Yes
Other 96 companies					
Color & Display					
Colors & Effects USA LLC	New Jersey, U.S.A.	— (US$ 484,602 thousand)	Manufacture and sale of pigments and related products	100.0 (100.0)	Interlocking directors, etc.: Yes
Sun Chemical Colors & Effects GmbH	Ludwigshafen am Rhein, Germany	Eur 26 thousand	Manufacture and sale of pigments and related products	100.0 (100.0)	Interlocking directors, etc.: Yes
Qingdao DIC Finechemicals CO., LTD.	Qingdao, China	RMB 93,646 thousand	Manufacturing, sales of liquid crystal materials and R &D	100.0 (100.0)	Interlocking directors, etc.: Yes
Earthrise Nutritionals LLC	California, U.S.A.	US $ 16,700 thousand	Manufacture and sale of spirulina-related products	100.0 (100.0)	The company sells spirulina products to the Company. Interlocking directors, etc.: Yes Loans receivable: Yes
Other 21 companies					

Name	Location	Capital Stock (Millions of yen)	Description of Business	Ownership of Voting Rights (%)	Details of Relationship
Functional Products					
SEIKO PMC CORPORATION	Chuo-ku, Tokyo	2,000	Manufacture and sale of papermaking chemicals and products for printing ink and recording materials	54.5	The company sells raw materials for printing inks to the Company. Interlocking directors, etc.: Yes
DIC Decor, Inc.	Okegawa-city, Saitama	480	Manufacture and sale of decorative boards, interior housing products, coatings for building materials and decorative sheets	100.0	The company purchases coatings for building materials from the Company. Interlocking directors, etc.: Yes Guaranteed liabilities: Yes
DIC EP Corporation	Sodegaura-city, Chiba	100	Manufacture and sale of PPS neat polymers and large modules for water treatment	100.0	The company produces raw materials for PPS compounds and large membrane modules for water that the Company sells. Interlocking directors, etc.: Yes Loans receivable: Yes
DIC PLASTICS Inc.	Saitama-city, Saitama	100	Manufacture and sale of plastic molded products	100.0	Interlocking directors, etc.: Yes Guaranteed liabilities: Yes
DIC Material Inc.	Chuo-ku, Tokyo	450	Manufacture and sale of unsaturated polyester resins and vinyl ester resins	100.0	The company purchases raw materials for synthetic resins from the Company. Interlocking directors, etc.: Yes
DIC Zhangjiagang Chemicals Co., Ltd.	Zhangjiagang, China	RMB 206,686 thousand	Manufacture and sale of synthetic resins and PPS compounds	100.0 (100.0)	The company purchases raw materials for synthetic resins from the Company. Interlocking directors, etc.: Yes
Siam Chemical Industry Co., Ltd.	Bangkok, Thailand	Baht 130,000 thousand	Manufacture and sale of synthetic resins	100.0 (64.0)	The company purchases raw materials for synthetic resins from the Company. Interlocking directors, etc.: Yes
Guangdong DIC TOD Resins Co., Ltd.	Shaoguan, China	RMB 130,000 thousand	Manufacture and sale of synthetic resins	100.0 (100.0)	Interlocking directors, etc.: Yes
Changzhou Huari New Material Co., Ltd.	Changzhou, China	RMB 127,019 thousand	Manufacture and sale of synthetic resins	100.0 (40.0)	Interlocking directors, etc.: Yes
LIDYE CHEMICAL CO., LTD.	Taipei, Taiwan	NT $ 160,000 thousand	Manufacture and sale of synthetic resins	51.0	The company manufactures synthetic resins that the Company sells. Interlocking directors, etc.: Yes
DIC SYNTHETIC RESINS (ZHONGSHAN) CO., LTD.	Zhongshan, China	RMB 135,498 thousand	Manufacture and sale of synthetic resins and metal carboxylate	100.0 (10.0)	Interlocking directors, etc.: Yes
Other 20 companies					
Others					
DIC INVESTMENTS JAPAN, LLC.	Chuo-ku, Tokyo	91	Investments and loans to group companies	100.0	Interlocking directors, etc.: Yes
DIC Asia Pacific Pte Ltd	Singapore, Singapore	S $ 310,161 thousand	Investment, loans to group companies in Asia-Oceania region and manufacture and sale of The Company products	100.0	Interlocking directors, etc.: Yes
DIC (CHINA) CO., LTD.	Shanghai, China	RMB 1,695,979 thousand	Investments and loans to group companies in China region	100.0	Interlocking directors, etc.: Yes
Other 6 companies					

(2) Equity-method affiliates

Name	Location	Capital Stock (Millions of yen)	Description of Business	Ownership of Voting Rights (%)	Details of Relationship
TAIYO HOLDINGS CO., LTD.	Hiki-gun, Saitama	9,761	Set TAIYO Group's broad strategic direction and manage its subsidiaries, R&D, etc.	20.1	Interlocking directors, etc.: Yes
SUNDIC Inc.	Chuo-ku, Tokyo	1,500	Manufacture and sale of plastic sheets	50.0	The company purchases raw materials for plastic sheets from the Company. Interlocking directors, etc.: Yes
Other 18 companies					

(Notes)

1. There are six companies that are defined as specified subsidiaries: Sun Chemical Group Coöperatief U.A., Sun Chemical Corp., DIC Asia Pacific Pte Ltd, DIC (CHINA) CO., LTD., Colors & Effects USA LLC, and DIC INVESTMENTS JAPAN, LLC.
2. There are two companies that submit annual securities report: SEIKO PMC CORPORATION and TAIYO HOLDINGS CO., LTD.
3. With respect to group companies for which capital stock or the amount corresponding to capital stock is zero, capital surplus (or an amount equivalent to capital surplus) is indicated in parentheses ( ) in the column of capital stock.
4. The figures in parentheses ( ) in the column of ownership of voting rights indicate the indirect ownership percentage.
5. There are no group companies with liabilities in excess of assets that have a material impact on the consolidated financial statements.
6. Sun Chemical Group Coöperatief U.A.'s net sales (excluding intercompany sales among consolidated companies) accounts for more than 10% of consolidated net sales and its financial data is as follows. Sun Chemical Group Coöperatief U.A. is settled on a consolidated basis. The following major profit and loss information is also consolidated.

(Millions of yen)

Sun Chemical Group Coöperatief U.A.	Net sales	542,975
	Ordinary income	14,824
	Net income	2,987
	Net assets	309,916
	Total assets	580,013

5. Employees

(1) Consolidated basis

As of December 31, 2022

Segment	Number of employees
Packaging & Graphic	10,688
Color & Display	4,630
Functional Products	5,485
Other	546
Corporate	1,394
Total	22,743

(2) Non-consolidated basis

As of December 31, 2022

Number of employees	Average age (Years)	Average years of service (Years)	Average annual salary (Yen)
3,744	44.1	18.9	7,584,567

Segment	Number of employees
Packaging & Graphic	420
Color & Display	330
Functional Products	1,600
Corporate	1,394
Total	3,744

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

(3) Relationship with labor unions

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

II. Business Overview

1. Basic Management Policy, Business Environment, and Challenges to be Addressed.

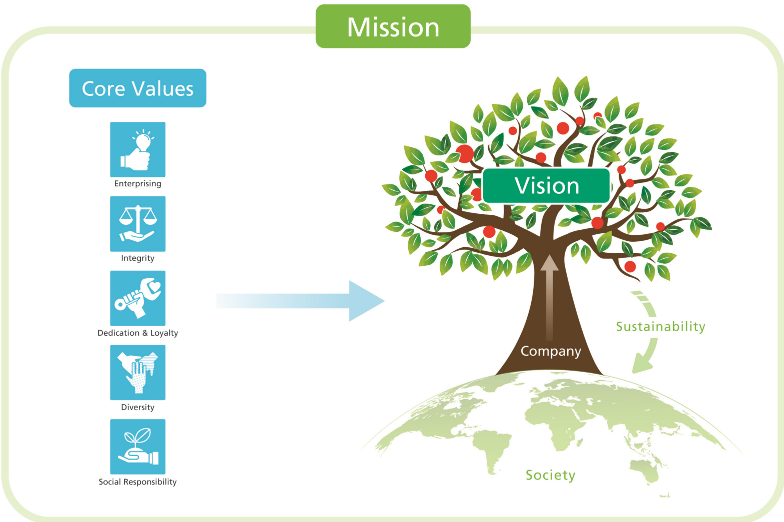
As all forward-looking statements in this document are based on judgments as of the end of the current fiscal year, achievement is not guaranteed.

(1) Basic management policy

The DIC Group's basic management philosophy is based on the DIC Way, expressed in three elements: Our Mission, Vision, and Core Values.

Our Mission expresses our ultimate purpose as a company. Our Vision expresses the direction we must follow to realize our Mission. Our Core Values express the actions Group members strive to embody and serve as guidelines for the concrete daily actions needed to realize our Mission.

The DIC Way



Mission

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

Vision (Redefined)

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

Please note that DIC redefined our Vision in 2022 to express our goals to deliver greater value through broader innovation, improving the human condition and promoting sustainability for a brighter future.

Core Values

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

About Our Redefined Vision

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

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

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

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

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

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

~DIC Vision 2030 Basic Policy~

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

1. Basic Strategies

1) Business portfolio transformation

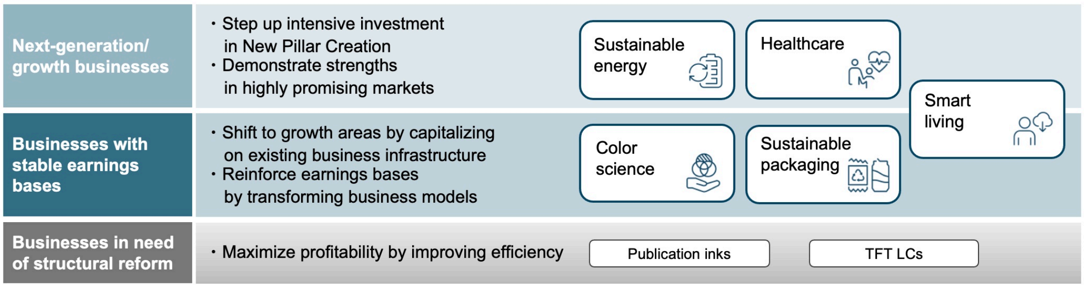
● Identify and concentrate allocation of management resources in five priority business areas in which DIC can make important contributions to a society that is increasingly green, digital and QOL-oriented by leveraging its competitive strengths.

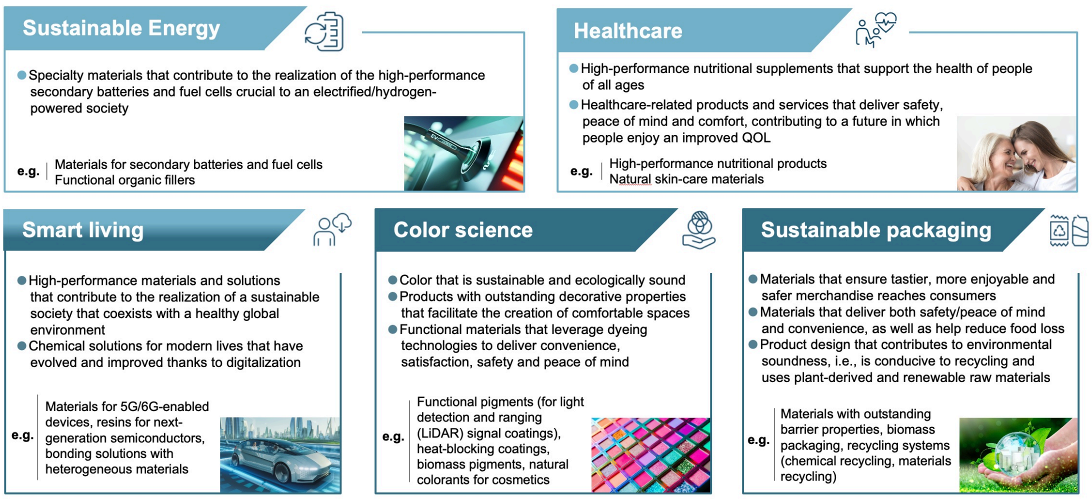
● Based on market growth potential and degree of impact on society, identify five priority business areas at the intersection of environment, safety and health (ESH)-related issues and DIC's competitive strengths.

・Sustainable energy　・Healthcare　・Smart living
・Color science　・Sustainable packaging

● Establish sustainable energy and healthcare as new business pillars.

● Promote Value Transformation in smart living, color science and sustainable packaging to make business more sustainable.





[Five Strategies to Transform DIC's Business Portfolio]

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

2) Sustainability strategies

● Work to expand sustainable products, that is, products that demonstrate unique competitive strengths and respond to ESH-related issues

Target: Increase sustainable products to 60% of net sales by fiscal year 2030 (fiscal year 2020: 40%)

Note: DIC positions products that demonstrate unique competitive strengths and respond to ESH-related issues as "sustainable."

● Promote efforts to reduce CO_2 emissions and help realize a carbon-neutral society

Target: Achieve carbon neutrality by 2050 and reduce CO_2 emissions by 50% from the fiscal year 2013 level by fiscal year 2030

● Advance efforts to respond to a circular economy, thereby contributing to a sustainable society

3) Business group strategies

Packaging & Graphic	• Looking ahead to the realization of a circular economy, work to develop sustainable next-generation packaging materials with the aim of locking in new demand and expanding the packaging materials business • Take the lead in the market for next-generation sustainable packaging by developing products and proposing solutions compatible with a focus on "5Rs"* • Accelerate shift to high-performance, high-value-added products by, among others, expanding specialty products, promoting digitalization and responding to demand for smart packaging • Build existing businesses into stable revenue sources by securing organic growth and streamlining operations in Asia *Reuse, Reduce, Recycle, Redesign, Reduce CO_2
Color & Display	• Establish an unrivaled competitive advantage by swiftly realizing synergies with the Colors & Effects business • Shift focus to materials with outstanding decorative properties and functionality and increase the weighting of sustainable products that deliver both social value and economic value • Redefine "Spirulina business" as "healthcare business" • Redefine "LCs business" as "electronics business"
Functional Products	• Ensure the timely provision of functional materials that support digital innovation • Contribute to a carbon-neutral society by promoting a shift to biomaterials • Cultivate demand by directly communicating the appeal of materials, devices and services to consumers and society at large • Supply polymers that help reduce environmental impact and impart functionality widely across Asia

(3) Management indicators as targets

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

(Billions of yen)	2022 Actual	2023 Forecasts	2025 Initial Plan
Net sales	1,054.2	1,150.0	1,100.0
Operating income	39.7	43.0	80.0
Operating margin	3.8%	3.7%	7.3%
Net income attributable to owners of the parent	17.6	20.0	45.0
EBITDA*	85.5	87.0	137.0
ROIC**	3.6%	3.6%	6.0%
Net D /E ratio*** (Net D/C ratio)****	1.15 (51.4%)	1.09 (50.1%)	Less than 1 times (Less than 50%)

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

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

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

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

2. Business Risks

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

The key risks described below are recognized based on material issues[2] identified by the Group, and the findings of a survey conducted by the Risk Management Working Group, and the potential impact of each risk on the Group's businesses and stakeholders are categorized into high, medium or low.[3]

Forward-looking statements herein are based on projections as of December 31, 2022, and do not cover all risks that could affect the Group.

Notes:

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

   Likelihood (Potential for future manifestation as of December 31, 2022)
   High: Highly likely
   Medium: As likely as not
   Low: Unlikely

   Time Horizon (Expected timing of/period before risk is likely to manifest as of December 31, 2022)
   Long term: Five years or more
   Medium term: Three to four years
   Short term: Within two years
   Unknown: Cannot anticipate the timing of its emergence

   Risk Type (Categorization by origin as of December 31, 2022**)**
   1: Externally caused risks that are beyond the Group's control
   2: Corporate risks that can be managed through Group management-led countermeasures
   3: Business-related risks that should be handled by the relevant divisions/departments

   Alignment (Relationship with business strategies outlined in the DIC Vision 2030 long-term management plan)
   A: Business portfolio transformation to achieve growth
   B: Strengthening of management infrastructure underpinning global ESG management and safety management
   C: Cash flow management
   Other: No alignment with business strategies

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

Details of Risks and Impact on Performance	Likelihood	Time Horizon	Risk Type	Alignment	DIC Group Countermeasures
Risks associated with response to climate change–related operating environment and ESH-related changes Pressure on the global community to achieve carbon neutrality—net zero CO_2 emissions—by fiscal year 2050 continues to intensify rapidly and changes to rules governing competitiveness are expected to transform the socioeconomic system. In June 2021, the DIC Group revised its target for the reduction of CO_2 emissions. The Group now aims to reduce CO_2 emissions by 50% from the fiscal year 2013 level by fiscal year 2030 and to achieve carbon neutrality by fiscal year 2050, the goals set forth in DIC NET ZERO 2050. The DIC Group recognizes the following climate change–related risks as having the potential to have a significant negative impact on its performance in order to achieve the above-mentioned goal: (1) Japan has resolved to introduce a domestic emissions trading scheme. Depending on the DIC Group's Scope 1 emissions, there is a risk that this may lead directly to an increase in costs for the Group from fiscal year 2026 forward due to the payment of penalties. In addition, should carbon pricing be introduced in the future, there is a concern that raw materials, fuel and electric power prices will rise further. (2) From the perspective of carbon footprint, should drastic changes arise in the expectations of society regarding the reduction of CO_2 emissions or in customer needs, there is a risk that profits generated by its businesses may decline significantly and/or that the need to consider withdrawing from certain existing businesses or canceling new investment projects may arise. (3) Should the DIC Group be unable to respond to any sudden changes in demand resulting from the shift to a circular economy to advance decarbonzation, there is a risk of a significant decline in profits generated by its businesses (climate change–related transition risk).	High	Medium to long term	1,2,3	A, B	The DIC Group is working to reduce CO_2 emissions through aggressive environmental investments and energy conservation measures. The Group is also creating a road map to realize the goals set forth in DIC NET ZERO 2050. In July 2021, the Group introduced an internal carbon pricing system to encourage employee awareness of costs associated with CO_2 emissions and to increase incentives for reductions realized. The DIC Group also recognizes the need to conduct life cycle assessments, including measuring carbon footprint, for all Group investments, businesses and products, whether existing or new. The Group's CO_2 emissions reduction target has received endorsement from the Science Based Targets initiative (SBTi), which encourages companies to set science-based CO_2 emissions reduction targets. Having set new targets, including for Scope 3 (CO_2 emissions across the supply chain), the Group is striving to reduce its Scope 1, 2 and 3 emissions. In addition, to respond appropriately to changes in demand caused by climate change, the DIC Group is advancing the development of products that address changes in demand resulting from the shift to a circular economy, and aiming to help resolve social imperatives related to climate change. The DIC Group is also formulating business continuity plans (BCPs) that include measures to ensure supplies of key raw materials and address extreme physical risks, as well as strengthening countermeasures against climate-related disasters for sites located in coastal areas. The Group continues to promote active disclosure regarding these activities as a means of communicating with external audiences and earning stakeholders' understanding.

Details of Risks and Impact on Performance	Likelihood	Time Horizon	Risk Type	Alignment	DIC Group Countermeasures
(4) Should climate-related disasters arising from the increasing seriousness or frequency of extreme weather events occur and result in product supplies becoming impossible or being delayed due to the suspension of operations at production facilities and the instability of raw material supplies, there is a risk that it will cause a significant decline in profits generated by DIC Group businesses or threaten business continuity (extreme physical risk).					Alongside these efforts, by striving to collect highly accurate information, raise Groupwide awareness and cultivate a shared understanding, the DIC Group will continue working as one to implement steady, verifiably effective efforts, doing everything possible to avoid been seen as greenwashing.
Risks associated with portfolio transformation Under its long-term management plan, DIC Vision 2030, the DIC Group will concentrate management resources to transform its business portfolio, identifying five priority business areas that will help respond to related issues and contribute to sustainable prosperity for society. Should portfolio transformation be delayed, or ossification cause a slowing of growth or product life cycles that pushes down the profitability of mature businesses, the DIC Group's operating results and/or financial position may be affected.	Medium	Short to long term	2, 3	A	Under its long-term management plan, DIC Vision 2030, the DIC Group has designated five priority business areas, namely, sustainable energy, healthcare, smart living, color science and sustainable packaging, and is focusing efforts on achieving results collaboration between its business groups and the New Business Development Headquarters. In addition, the Group has established criteria for downsizing or withdrawing from businesses with low profitability that are not in line with its business strategy and conducting regular reviews, while the Board of Directors and the Executive Committee periodically check the progress of the business strategies set forth in the long-term management plan and take steps to update existing measures to reflect the business environment, as well as to implement additional measures. To ensure it achieves the goals set forth in its long-term management plan, the Group has positioned the first four years of the plan(fiscal years 2022–2025)—as a period of foundation building and the subsequent five years(fiscal years 2026–2030)—as the period for the plan's realization. The DIC Group is also building a business portfolio that contributes to the sustainable prosperity of society by increasing the weighting of sustainable products that demonstrate unique competitive strengths and help address social imperatives.

Details of Risks and Impact on Performance	Likelihood	Time Horizon	Risk Type	Alignment	DIC Group Countermeasures
Risks arising from demands for the reduction of environmental impact The DIC Group works to reduce the environmental impact of its business activities. However, there is a risk that the Group may be required to bear the cost of recovery and/or be liable to pay damages in the event that issues result in the discharge of environmentally harmful substances, including pollutants, industrial waste and marine plastics, that exceed expectations. There is also a risk that business continuity may become impossible if the Group fails to respond appropriately to changes in industry standards resulting from stricter environmental regulations or changes in socioeconomic systems aimed at enhancing sustainability. Moreover, if the Group fails to respond to sudden changes in product performance requirements resulting from social changes, there is a possibility that the profits generated by its businesses may decline and/or that risks to business continuity may manifest.	Medium	Short to Long term	1,2,3	A, B	The DIC Group strives to reduce its environmental impact from the perspective of both production and business activities. Production activities: In addition to actively expanding investments in environment-friendly equipment and expediting its introduction, the DIC Group strives to comply with various laws and regulations governing the reduction of environmental impact in the countries and territories where it has production sites. Having set concrete reduction targets, the Group regularly monitors environmental impact data to manage related risks while working to lower its discharge of environmentally harmful substances. Business activities: The DIC Group strives to reduce the environmental impact of its products, while also expanding its lineup of sustainable products, that is, products that help ensure a healthy global environment and address social imperatives. In particular, the Group is working to increase the weighting of environment-friendly products in its portfolio, including those made with bioderived materials. The Group is also advancing efforts to respond to a circular economy, including by promoting the reuse and recycling of products through chemical and material recycling.

Details of Risks and Impact on Performance	Likelihood	Time Horizon	Risk Type	Alignment	DIC Group Countermeasures
Risks associated with the stagnation of innovation The DIC Group believes that responding to ESH-related environmental issues is extremely important and is working as one to develop products that contribute to a society that is increasingly green, digital and quality of life (QOL)-oriented. At the same time, the Group is striving to keep pace with the rapidly expanding use of digital technologies and the advance of digital transformation (DX). However, should the Group be unable to develop and launch products that respond to social imperatives, owing to the stagnation of innovation, its growth may slow.	Medium	Medium to long term	2, 3	A, B, C	The DIC Group leverages its existing basic technologies, as well as new basic technologies in the areas of inorganic materials and biomaterials design to develop sustainable products for a variety of markets and needs, including next-generation packaging such as biomass packages that contribute to a green society, 5G/6G communication compatible materials and functional inorganic materials that contribute to a digital society, and high-performance nutrition that contributes to a QOL-oriented society. In particular, technical departments actively deploy materials informatics (MI) to improve the success rate of product development efforts and shorten the development stage. The Group has also introduced cutting-edge quantum computing technologies through participation in a related consortium. Moreover, the Group eagerly promotes open innovation, including through joint research with external research institutions and the use of corporate venture capital to secure new technologies. In addition, the Group has deployed a new method for evaluating technical themes, based on which it is working to increase internal resources and optimize their allocation. Concurrently, in response to social changes brought about by digitalization, including the rapid advance of artificial intelligence(AI) and the Internet of Things(IoT), among others, the dedicated DX Promotion Department is spearheading active efforts to create smart factories and transform business models, as well as to promote the development of production technologies that are highly efficient and curb CO_2 emissions, while at the same time help maintain/improve the stability of production and the quality of products.

Details of Risks and Impact on Performance	Likelihood	Time Horizon	Risk Type	Alignment	DIC Group Countermeasures
Risks associated with securing of human resources To sustain growth, the DIC Group recognizes the need to secure and retain the diverse individuals necessary to the management and execution of its businesses. With the labor market overall seeing an increasing need for people who are capable of playing an active role globally and possess a high level of expertise, and competition to recruit such human resources intensifying, taking steps to ensure effective recruiting, training and employee retention is an urgent challenge. Should the Group be unable to recruit, employ and foster diverse and talented human resources groupwide on an ongoing basis, its ability to manage its businesses and devise an effective corporate organization may be affected.	Medium	Short to long term	2, 3	A, B	To recruit the necessary human resources in a timely manner, the DIC Group is strengthening not only its periodic simultaneous recruitment of new graduates but also its hiring of highly specialized, experienced mid-career individuals, which makes use of a variety of recruitment methods. In addition to enhancing the DIC Report, its integrated report, and advancing branding initiatives, the Group is striving to attract talent in today's labor market. To encourage its broad range of employees to work together with a sense of solidarity, the Group is promoting diversity, introducing a multitrack personnel system, enhancing career support systems, strengthening talent management, expanding human resources development systems, improving support for mental health, formulating global succession and relocation plans, and implementing work style reform measures to realize flexible work arrangements.

Details of Risks and Impact on Performance	Likelihood	Time Horizon	Risk Type	Alignment	DIC Group Countermeasures
Risks related to the creation of a sustainable supply chain for raw materials The DIC Group works to ensure a sustainable supply chain, placing equal emphasis on quality, price and supply stability from both a short-term and a medium- to long-term perspective. Should the impact of international commodities' prices lead to sharp increases in or raw materials monopolized by certain suppliers as a result fluctuations in the supply–demand balance caused by accidents or issues involving materials suppliers or by natural disasters, logistics disruptions arising from other issues, or the designation of additional substances for legal or regulatory restrictions, there is a risk this may affect the DIC Group's operating results and/or financial position may be affected. In addition, from a medium- to long-term perspective, the procurement of raw materials from suppliers that are not promoting sustainability (i.e., ESG) initiatives may hinder the DIC Group's ability to ensure business continuity.	Medium	Short to long term	1,2,3	A, B	To ensure the stable procurement of low-priced raw materials, the DIC Group is diversifying its efforts to secure alternative raw materials, which include promoting multiple company purchasing, entering into supply contracts and seeking substitute materials and switching to local procurement, with the aim of reducing both raw materials costs and procurement-related risks. From a medium- to long-term perspective, the DIC Group compels suppliers to advance sustainability initiatives, including working to ensure the stringent management of chemical substances and the reduction of environmental impact, in line with the DIC Group Sustainable Procurement Guidelines, which it compels suppliers to observe. The Group encourages such initiatives through surveys to ascertain the status thereof and subsequent follow-up. Through such efforts to ensure the stability and soundness of raw materials supplies and quality, enabling it to secure the trust of customers, the Group is working to secure its profitability by ensuring the systematic, appropriate setting of product prices.

Details of Risks and Impact on Performance	Likelihood	Time Horizon	Risk Type	Alignment	DIC Group Countermeasures
Risks associated with political and geopolitical changes In the event of unexpected circumstances arising from drastic political or social changes or issues such as the revision of laws, regulations and international treaties, resulting cost increases, restrictions on product and/or raw materials imports and exports, the suspension of monetary remittances, or supply chain interruptions may affect the DIC Group's operating results and/or financial position. For example, a sharp increase in costs due to the suspension of product and/or raw materials imports and exports and higher tariff rates attributable to friction between the United States and the People's Republic of China (PRC); timely and expedient local responses and staffing restrictions necessitated by stricter travel restrictions; conflicts and political instability in the Middle East; chaos caused by Russia's invasion of Ukraine; increases in energy and natural resource prices resulting from fears of military action involving Taiwan; and turmoil in the area of logistics all have the potential to impact the Group's performance.	Medium	Unknown	1, 2	Other	In addition to overall management by DIC's corporate headquarters in Japan, regional headquarters' everyday management includes monitoring risks with the potential to impact the DIC Group's ability to conduct business and function in each of the countries and territories in which it operates. The DIC Group also works to address country risk for production and sales, establishing a business unit–led framework for formulating BCPs, and a system for facilitating multiple-company purchasing. To analyze supply chain–related issues, the DIC Group makes effective use of its global network to reduce risk. In addition, to protect management resources, notably its people, credit and assets, the DIC Group is promoting information sharing, the planning of countermeasures, and education and training for the Group as a whole while collaborating as necessary with local sites around the world.

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

Details of Risks and Impact on Performance	Likelihood	Time Horizon	Risk Type	Alignment	DIC Group Countermeasures
Risks associated with disasters and accidents In the event of a large-scale disaster or a disaster or accident associated with its business activities that results in casualties or property damage, leading to the suspension of plant operations and/or business activities, the DIC Group's operating results and/or financial position may be affected. In addition, the occurrence of a facility accident or disaster may harm the Group's reputation in the local community, as well as affect its business activities.	Medium	Short to long term	1,2,3	Other	Having prepared rules for managing major crises and manuals for specific risks (e.g., large-scale natural disasters, such as a major earthquake, typhoon or flood; a pandemic; a plant explosion; and fire or water damage) for use Groupwide, the DIC Group formulates BCPs for individual product divisions. From the perspectives of safety and health and the prevention of disasters, the DIC Group formulates and disseminates policies and is creating a system that enables management to take the lead in advancing safety initiatives, regular audits, and active ongoing education and training. The Group is promoting exhaustive efforts to prevent accidents, including analyzing the causes of accidents and formulating countermeasures using the "4Ms" (for Man, Machine, Media and Management) model, and conducting preliminary verifications in advance of reactor experiments. As a countermeasure to the rapidly increasing frequency of natural disasters, the DIC Group is promoting continued investments aimed at improving earthquake and water resistance and the reinforcement of cooperation with other companies and its subcontractors to ensure it is fully prepared for unforeseen circumstances.

Details of Risks and Impact on Performance	Likelihood	Time Horizon	Risk Type	Alignment	DIC Group Countermeasures
Risks associated with product quality issues In the event a product or process is suspected of being defective, fraudulent or counterfeit, or should a serious complaint be received or a product liability issue arise, or DIC be obliged to recall products or found liable for damages, it may not only lead to the suspension of shipments or production but also affect the DIC Group's operating results and/or financial position. Such incidents may also result in a loss of social credibility.	Medium	Unknown	2, 3	A, B	The DIC Group's Quality Policy is "Contribute to the prosperity of customers and society by consistently providing reliable products." Every year, the president of DIC reminds Group employees of the importance of quality assurance. Recognizing that, in the words of the director in charge of production, "safe operation and quality control are the foundation of everything we do," the Group seeks to ensure each employee feels a sense of ownership concerning quality and works to ensure the proper functioning of the Group's quality management system (QMS) and improve quality. The Group's quality assurance framework, which was centralized in fiscal year 2021, enables it to manage pertinent Groupwide initiatives in an integrated manner and to grapple earnestly with the management of risks associated with product quality from the perspective of customer satisfaction. The Group continues to build and expand its quality control configuration, with the Quality Committee, which answers directly to the president, monitoring Groupwide quality-related efforts, and the Quality Control Department's general manager overseeing the implementation of annual quality audits. With the goal of ensuring it is able to fulfill its responsibility to society in the event defects are found in products that have already shipped, in fiscal year 2021 the DIC Group also abolished its rules for quality control, replacing them with new quality regulations, and revamped its organizational and procedural systems.

Details of Risks and Impact on Performance	Likelihood	Time Horizon	Risk Type	Alignment	DIC Group Countermeasures
Pandemic-related risks In the event of a pandemic, i.e., an infectious disease that has spread worldwide, shipments may decline due to the resulting stagnation of economic activity and falling demand. In addition, government calls for restrictions on business activities and/or the infection of DIC Group employees may necessitate the closure of sales bases or the suspension of operations at R&D sites, making business continuity difficult. Both situations have the potential to affect the Group's operating results and/or financial position.	Medium	Short term	1, 3	B	As a global organization, the DIC Group has production, R&D and other operations in Japan, the PRC, Asia－Pacific region, Europe, North America, and Central and South America. The Group's multiple production bases and rigorous backup measures reduce risks associated with facility closures or the suspension of operations. The DIC Group is also expanding and reinforcing its IT infrastructure, positioning it to create paperless work environments through the digitizing of information and a shift to electronic approval procedures, and is encouraging the use of telework arrangements, which enable employees to work at home or in other remote locations, thereby positioning it to continue operating smoothly in the event of a pandemic. The DIC Group is promoting the diversification of business risks by transforming its business portfolio in line with its long-term management plan, under which it aims to shift to a robust business structure that is less vulnerable to changes in the macroenvironment.
Risks associated with interest rate fluctuations					
Interest-bearing debt is a source of financing for the DIC Group. Accordingly, any sudden fluctuations in financial markets have the potential to affect the Group's business performance and/or financial position.	Medium	Short to medium term	1	C	The DIC Group has adopted the net debt-to-equity (D/E) ratio to gauge financial soundness and is working to maintain/strengthen its financial position and reduce interest-bearing debt. The Group is also taking steps to avoid risks associated with future interest rate fluctuations and reduce its interest burden, including increasing the procurement of funds at fixed rates, while closely monitoring interest rate trends around the world.

Details of Risks and Impact on Performance	Likelihood	Time Horizon	Risk Type	Alignment	DIC Group Countermeasures
Risks associated with exchange rate fluctuations Because the DIC Group conducts business activities around the world, foreign currency fluctuations impact the line items in the financial statements of overseas subsidiaries after translation into yen. Significant fluctuations thus have the potential to affect the Group's business performance and/or financial position. In addition, imports, exports and other transactions denominated in foreign currencies are susceptible to the impact of foreign currency fluctuations and may also impact the Group's business performance.	Medium	Short term	1	C, Other	Under the leadership of DIC's corporate headquarters in Japan, the DIC Group has established regional foreign exchange risk management systems and is working to better grasp the impact of foreign currency fluctuations in foreign exchange rates on its business performance, as well as grasp the impact of overseas subsidiaries' foreign currency-denominated transactions. In addition, the Group is taking measures to mitigate such risk, including using foreign currency forward contracts and other hedging instruments, as well as multicurrency financing and investments.
Risks arising from the failure of acquisitions and capital alliances to proceed as expected With the aim of transforming its business portfolio, the DIC Group is actively pursuing promising acquisitions and capital alliances. If the integration and cooperation efforts implemented by the Group are insufficient or do not proceed as anticipated, resulting in the failure to realize initially expected benefits, the Group's operating results and/or financial position may be affected.	Low	Medium to long term	2, 3	A, C	The DIC Group works to address risks by basing investment decisions on proprietary investment indicators, as well as by thorough in-house investigations and due diligence conducted in collaboration with external organizations, to identify and address risk factors in advance. The Group also promotes Groupwide post-merger integration initiatives and implements actions aimed at realizing synergies.

Details of Risks and Impact on Performance	Likelihood	Time Horizon	Risk Type	Alignment	DIC Group Countermeasures
Risks associated with inadequate corporate governance DIC Group companies operate not only in Japan but also in the PRC, the Asia–Pacific region, North America, Central and South America, Europe, the Middle East and Africa, among others. Corporate governance that is inadequate, ineffective or unenforced may result in misconduct, embezzlement, creative accounting, or legal or regulatory violations, which may harm the Group's reputation and/or its social credibility.	Low	Unknown	2	B, Other	The DIC Group has established the DIC Group Code of Business Conduct, which sets forth compliance standards. The code has been translated into other key languages, creating a regulatory environment appropriate to guide correct decision making and conduct by employees around the world. All Group companies are endowed with the decision-making authority and rules necessary for corporate governance. The DIC Group has established an internal control configuration encompassing companies in Japan, the PRC, the Asia–Pacific region, North America, Central and South America, Europe, the Middle East and Africa and regularly conducts internal audits at almost all sites. The internal audit department, Audit & Supervisory Board members and accounting auditors also work together closely to verify that Group companies comply with laws and regulations and that the Group's corporate governance system is functioning effectively. To prevent misconduct, the DIC Group works to ensure that all Group employees are aware of its whistle-blowing system and to create an environment that precludes wrongdoing. By redefining its vision statement, as well as through measures such as the establishment of a commendation system for recognizing worthy examples of the DIC Group Code of Business Conduct in practice, the DIC Group strives to advance global awareness and understanding of The DIC Way, which represents its fundamental management philosophy.

Details of Risks and Impact on Performance	Likelihood	Time Horizon	Risk Type	Alignment	DIC Group Countermeasures
Risks associated with compliance violations The DIC Group conducts business activities around the world and is subject to various laws and regulations pertaining to commercial transactions, safety, environment and chemical substances. Violations of laws and regulations may result in order to suspend business, fines and/or liability for damages, which may affect the Group's operating results and/or financial position.	Low	Unknown	2	A, B, Other	In addition to laws and regulations, the Group has established the DIC Group Code of Business Conduct as a set of compliance standards to be observed when conducting business. Whenever the occasion arises, the president of DIC makes a point of communicating the importance of compliance, as well as the need to prioritize compliance over business, to all employees, including executives. The Group works to deepen employee awareness of the importance of compliance through training and e-learning employing actual case studies as examples. The DIC Group has created a system that enables people with related questions to seek consultation and promotes the use of the Group's whistle-blowing system, which facilitates the prompt discovery and correction of compliance violations through audits by departments independent of the department in charge. The DIC Group takes the necessary steps to reduce compliance risk in all aspects of its operations. These include promoting awareness of amendments to laws and regulations, deploying stringent systems for managing information on chemical substances, advancing DX and measures to improve efficiency, and conducting stringent design reviews.

Details of Risks and Impact on Performance	Likelihood	Time Horizon	Risk Type	Alignment	DIC Group Countermeasures
Risks associated with information security In the event of data loss or falsification resulting from cyber attacks, information leaks, business system interruptions or the failure or malfunction of facilities/equipment attributable to disasters or impediments, or the severance of international networks, there is a possibility that the DIC Group's businesses will stagnate and/or business opportunities will be lost, and that this will affect the Group's operating results.	Low	Unknown	2	B	The DIC Group works continuously to address risks by strengthening the security functions of its information control infrastructure, improving BCPs for IT (including disaster recovery, backup and systems-related measures), and upgrading and providing information security training, as well as by promoting risk assessments by third parties assuming cyber attacks and based on the results thereof, formulating road maps outlining various countermeasures.

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

Details of Risks and Impact on Performance	Likelihood	Time Horizon	Risk Type	Alignment	DIC Group Countermeasures
Risks associated with water resources The DIC Group seeks to ensure the effective use of water resources across its business activities. However, should water shortages and/or the deterioration of water quality at supply sources exceed expectations, production activities may be constrained and profitability may decline due to resulting increases in water prices.	Low	Long term	2, 3	A, B	The DIC Group monitors data on water withdrawn and discharged at each of its sites to ascertain the use of water resource use. In addition, production sites of the Group evaluate information on water resources and conduct risk assessments to determine the operational status of production facilities in their respective regions, and manage the status of countermeasures. By promoting the reuse and recycling of water, the Group is also striving to reduce the volume of water it uses.
Tax-related risks The DIC Group conducts sales, production and other business activities, as well as internal transactions in countries and territories around the world. The Group pays close attention to transfer price taxation and other international tax risks. However, should the Group be subjected to additional or double taxation due to differences in interpretations among tax authorities in different countries and territories, the Group's operating results and/or financial position may be affected.	Low	Unknown	1	Other	Under the leadership of DIC's corporate headquarters in Japan, the DIC Group pays appropriate taxes in accordance with the tax laws of each of the countries and territories in which it operates and maintains required transfer pricing documentation. The Group has also formulated an official approach to tax with the aim of ensuring highly transparent tax management.

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

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

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

(1) Summary of operating results

① Operating results

Operating results for the current fiscal year are as follows.

(Billions of yen)

	FY2021	FY2022	Change (%)	Change (%) 〔Local currency basis〕
Net sales	855.4	1,054.2	23.2%	16.2%
Operating income	42.9	39.7	-7.5%	-5.1%
Ordinary income	43.8	39.9	-8.7%	—
Net income attributable to owners of the parent	4.4	17.6	303.4%	—
EBITDA *	69.0	85.5	23.8%	—
¥/US$1.00 (Average rate)	109.75	130.59	19.0%	—
¥/EUR1.00 (Average rate)	129.73	137.71	6.2%	—

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

In the fiscal year ended December 31, 2022, consolidated net sales climbed 23.2%, to ¥1,054.2 billion. This sharp increase, coming amid global economic turmoil caused by a multiplicity of escalating geopolitical risks, including rising inflationary pressure worldwide, the protracted crisis in Ukraine and restrictions on movement in the People's Republic of China (PRC) under a stringent "zero-COVID" policy, was attributable to ongoing efforts to adjust sales prices in response to elevated energy, logistics and raw materials costs, as well as to the influence of yen depreciation on results denominated in other currencies after translation. In the Color & Display segment, the margin of improvement in net sales was boosted by the addition of a full year of sales from the C&E pigments business, which was not included in the scope of consolidation until the second half of the previous fiscal year. Nonetheless, shipments of high-value-added products were down in all regions from the third quarter forward, that is, from July through December, as demand for digital materials, used principally in electrical and electronics equipment and displays, continued to deteriorate in a negative rebound from gains ascribed to COVID-19–induced stay-at-home lifestyles, as well as to the fact that automobile production–related markets, plagued by semiconductor shortages, remained in recovery mode. Shipments of pigments also fell from the third quarter forward, owing to waning economic conditions in Europe, a leading market for these products.

Operating income decreased 7.5%, to ¥39.7 billion. This was despite the progress of efforts to pass on higher costs, particularly for raw materials, by modifying sales prices for many products, and was due largely to falling shipments of high-value-added products, notably digital materials and materials used in mobility solutions, which pushed down results in the Color & Display and Functional Products segments. The absence of ¥4.0 billion in one-time expenses recorded in the previous fiscal year in association with the integration of the C&E pigments business narrowed the margin of decline.

Ordinary income, at ¥39.9 billion, was down 8.7%.

Net income attributable to owners of the parent soared 303.4%, to ¥17.6 billion. The foremost factors behind this jump were one-time costs associated with the acquisition of the C&E pigments business, together with the reversal of deferred tax assets in the United States and the recording of an equivalent amount as income taxes–deferred, in the preceding period.

Earnings before interest, taxes, depreciation and amortization (EBITDA) rose 23.8%, to ¥85.5 billion.

The results of each segment are as follows.

(Billions of yen)

Segment	Net sales				Operating income (loss)			
	FY2021	FY2022	Change (%)	Change (%) 〔Local currency basis〕	FY2021	FY2022	Change (%)	Change (%) 〔Local currency basis〕
Packaging & Graphic	439.8	533.0	21.2%	14.9%	21.6	20.3	-6.0%	0.3%
Color & Display	167.2	248.2	48.5%	34.4%	4.0	5.1	29.1%	37.7%
Functional Products	283.3	315.4	11.3%	6.5%	26.2	23.6	-9.9%	-13.6%
Others, Corporate and eliminations	(34.9)	(42.4)	—	—	(8.9)	(9.4)	—	—
Total	855.4	1,054.2	23.2%	16.2%	42.9	39.7	-7.5%	-5.1%

[Packaging & Graphic]

	FY2021	FY2022	Change (%)	Change (%) 〔Local currency basis〕
Net sales	¥439.8 billion	¥533.0 billion	21.2%	14.9%
Operating income	¥21.6 billion	¥20.3 billion	-6.0%	0.3%

Segment sales advanced 21.2%, to ¥533.0 billion. Sales of packaging inks, used primarily on packaging for food products, increased, supported by efforts in all regions to modify sales prices. Nonetheless, shipments in Asia were down, as those in the PRC remained listless, hampered by that country’s relentless zero-COVID measures. In publication inks, which center on inks for commercial printing and news inks, demand in Japan failed to recover for use in pamphlets and event-related printed materials, while demand in Europe fell amid weakening economic conditions, causing shipments in both areas to slump, although sales rose thanks to assertive sales price adjustments worldwide. In jet inks, used in digital printing, demand was down for industrial applications, including outdoor signage (billboards and posters) and banners, as well as for commercial printing, but sales were up as yen depreciation boosted results denominated in other currencies after translation. The inclusion of the sales of Italian adhesives manufacturer Sapici S.p.A., the acquisition of which was completed in January 2022, also bolstered segment sales.

Segment operating income fell 6.0%, to ¥20.3 billion, despite edging up 0.3% on a local currency basis. Continued efforts to counter higher energy, logistics and raw materials costs globally by modifying sales prices met with success overseas, mainly in the Americas and Europe, but a decline in shipments combined with the depreciation of emerging market currencies to pushed down results in those markets after translation. Against this backdrop, moves by Sapici to expand its sales of adhesives in Europe led to steady growth in the Italian company’s profits.

[Color & Display]

	FY2021	FY2022	Change (%)	Change (%) 〔Local currency basis〕
Net sales	¥167.2 billion	¥248.2 billion	48.5%	34.4%
Operating income	¥4.0 billion	¥5.1 billion	29.1%	37.7%

Segment sales climbed 48.5%, to ¥248.2 billion. Owing to the addition of sales from the C&E pigments business, sales of pigments for coatings, plastics and cosmetics increased significantly. Demand for pigments for cosmetics rallied in the Americas and Europe, both of which were swift to eliminate COVID-19 mask rules, while signs of recovery were also seen in Asia. In display materials, sales of pigments for color filters fell markedly, as production cuts by display manufacturers, together with attendant inventory adjustments, depressed shipments. In pigments for specialty applications, sales of pigments for agricultural uses were firm, although shipments of those for building materials, used in autoclaved aerated concrete, remained on a downtrend in Europe, the principal market for these products.

Segment operating income, at ¥5.1 billion, was up 29.1%. This gain was due largely to the absence of ¥4.0 billion in one-time expenses recorded in the previous fiscal year in association with the integration of the C&E pigments business. If this factor was discounted, operating income would have been pushed down by, among others, dwindling shipments of high-value-added products, notably pigments for color filters and specialty applications, a decline in income in the C&E pigments business attributable to waning economic conditions and mounting energy costs in Europe, and a decrease in shipments of thin-film transistor liquid crystals (TFT LCs) from the third quarter forward.

[Functional Products]

	FY2021	FY2022	Change (%)	Change (%) 〔Local currency basis〕
Net sales	¥283.3 billion	¥315.4 billion	11.3%	6.5%
Operating income	¥26.2 billion	¥23.6 billion	-9.9%	-13.6%

Segment sales rose 11.3%, to ¥315.4 billion. In digital materials, used principally in electrical and electronics equipment and displays, shipments of epoxy resins—the principal application for which is semiconductor devices—declined dramatically worldwide, hampered by the PRC’s strict zero-COVID measures and slowing growth in the market for electronic devices, but sales advanced thanks to efforts to modify sales prices. Sales of industrial-use tapes, used mainly in smartphones and other mobile devices, were also up, bolstered by persistent moves to lock in demand. While demand for industrial materials,* used primarily in mobility solutions, particularly automobiles, tumbled both in Japan and overseas, sales price adjustments pushed up sales of core products. Sales of polyphenylene sulfide (PPS) compounds also expanded, notwithstanding flagging shipments for use in mobility solutions, as a result of sales price modifications and rising shipments for applications other than automobiles, including housing equipment.

Segment operating income decreased 9.9%, to ¥23.6 billion. This was despite headway made in adjusting sales prices for numerous products to pass on increases in energy, logistics and raw materials costs amid falling shipments, particularly of epoxy resins and other high-value-added products in the area of digital materials, which came up short.

*DIC uses the term “industrial materials” to describe products for use in mobility solutions, namely automobiles, railroads and shipping, and in general industrial applications such as construction equipment and industrial machinery.

② Cash flow

[Net cash provided by (used in) operating activities] ¥7.9 billion
(¥44.8 billion for the previous consolidated fiscal year)
In the current consolidated fiscal year, income before income taxes and non-controlling interests was ¥35.2 billion and depreciation and amortization was ¥47.1 billion. In addition, decrease of net cash flow was due to ¥14.9 billion payment to income tax and an increase of ¥52.0 billion of working capital. As a result, net cash provided by operating activities amounted to ¥7.9 billion.

[Net cash provided by (used in) investing activities] ¥(73.2) billion
(¥(147.6) billion for the previous consolidated fiscal year)
In the current consolidated fiscal year, ¥45.4 billion was used for the purchase of facilities and ¥30.7 billion was used for acquisition of subsidiary shares. As a result, net cash used in investment activities was ¥73.2 billion.

[Net cash provided by (used in) financing activities] ¥83.9 billion
(¥99.5 billion for the previous consolidated fiscal year)
In the current consolidated fiscal year, with an increase of ¥102.0 billion through borrowings, etc., ¥9.5 billion dividends from surplus were paid. As a result, net cash provided by financing activities amounted to ¥83.9 billion.

(Changes in cash flow indicators)

		FY 2020	FY 2021	FY 2022
Equity ratio (%)	(%)	38.9	32.3	30.7
Equity ratio at market value	(%)	30.1	25.6	17.5
Interest-bearing debt to cash flow ratio	(Years)	4.9	8.6	64.2
Interest coverage ratio	(x)	18.6	20.5	9.3

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

Equity ratio (%): (Net assets - Non-controlling interests)/Total assets

Equity ratio at market value: Market capitalization (closing price at the end of the period x number of shares issued at the end of the period (after deducting Treasury shares))/Total assets

Interest-bearing debt to cash flow ratio: Interest-bearing debt/Operating cash flow

Interest coverage ratio: (Operating income + Interest income + Dividends income) / Interest expenses

2. Indicators are calculated on a consolidated basis.
3. Interest-bearing debt includes Loans payable, Bonds payable and Lease obligations reported on the consolidated balance sheet.
   Net cash provided by (used in) operating activities in the consolidated statement of cash flows is used for operating cash flow.
   For Interest expenses, Interest expenses in the consolidated statement of income are used.

③ Production, order received and sales performance

(a) Production

Production volume by segment during current fiscal year ended December 31, 2022 is as follows.

Segment	Amount (Millions of yen)	YoY (%)
Packaging & Graphic	522,917	118.4%
Color & Display	243,700	140.3%
Functional Products	314,303	109.0%
Total reportable segments	1,080,920	119.6%
Other	50	95.6%
Total	1,080,971	119.6%

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

(b) Orders received

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

(c) Sales results

Sales results for current fiscal year ended December 31, 2022 by segment are as follows.

Segment	Amount (Millions of yen)	YoY (%)
Packaging & Graphic	533,009	121.2%
Color & Display	209,056	154.9%
Functional Products	311,579	111.2%
Total reportable segments	1,053,644	123.2%
Other	556	126.2%
Total	1,054,201	123.2%

(Note) Intersegment transactions are eliminated.

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

① Analysis of operating results

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

② Analysis of financial position

Total assets increased ¥190.2 billion from the end of the previous fiscal year, to ¥1,261.6 billion, mainly due to an increase in working capital and acquisition of subsidiaries. Total liabilities increased ¥150.1 billion from the previous fiscal year to ¥840.5 billion, mainly due to an increase in loans payable. In addition, Net assets increased ¥40.1 billion year from the previous fiscal year to ¥421.1 billion, mainly due to the impact of foreign exchange rate.

③ Capital resources and liquidity

(a) For an analysis of the Company's cash flows in the fiscal year ended December 31, 2022, please see "② Cash flow" in "(1) Summary of operating results."

(b) Financial strategy

In its long-term management plan, DIC Vision 2030, the DIC Group has selected net D/E ratio as a key indicator of financial health, setting forth a target of maintaining its net D/E ratio of at least 1.0 times. The Company expects to improve its net D/E ratio to around 1.09 times as of December 31, 2023, by addressing working capital compression with a focus on inventory. The adjusted net D/E ratio, after recognition of hybrid equity credit attributes, is expected to be in the area of 0.94 times.

Notes:

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

(c) Principal demands of funds

The principal applications of working capital are the purchase of raw materials, manufacturing costs and operating costs, including selling, general and administrative expenses. The principal applications of funds for investment include capital investment, purchase of shares or investments in capital of subsidiaries, and purchase of shares or investments of affiliates. For information on capital investment, please see "3. Plans for New Installation and Retirement of Facilities" in "III. Facilities"

(d) Fund raising

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

As of December 31, 2022, the Company's net interest-bearing debt was ¥445.9 billion, and the net D/E ratio was 1.15 times. Because the Company maintained a high level of cash on hand over the course of the period to mitigate the impact of financial market turmoil caused by COVID-19, cash and deposits at fiscal year-end amounted to ¥63.4 billion.

④ Significant accounting estimates and underlying assumptions

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

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

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

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

The achievement status of the DIC Vision 2030 long-term management plan for the current fiscal year is as follows:

(Billions of yen)	2022 Plan	2022 Actual	2023 Forecasts	2025 Initial Plan
Net sales	950.0	1,054.2	1,150.0	1,100.0
Operating income	54.0	39.7	43.0	80.0
Operating margin	5.7%	3.8%	3.7%	7.3%
Net income attributable to owners of the parent	28.0	17.6	20.0	45.0
EBITDA*	88.0	85.5	87.0	137.0
ROIC**	5.2%	3.6%	3.6%	6.0%
Net D /E ratio*** (Net D/C ratio)****	1.0 (48.7%)	1.15 (51.4%)	1.09 (50.1%)	Less than 1 times (Less than 50%)

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

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

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

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

4. Material Business Agreements, etc.

At the meeting of the Board of Directors held on June 27, 2022, the Company resolved to implement an absorption-type merger of wholly owned subsidiary Colors & Effects Japan Ltd., with an effective date of January 1, 2023. A merger agreement was concluded on July 1, 2022.

The details are in "V. Financial Information 1. Consolidated Financial Statements, etc. (1) Notes to Consolidated Financial Statements (Significant Subsequent Events)".

5. Research and Development Activities

In line with its redefined vision statement, "We improve the human condition by safely delivering color and comfort for sustainable prosperity—Color & Comfort," the DIC Group is leveraging its basic technologies, including existing technologies in the areas of optics and color, organic materials design, polymer design and dispersion, and new technologies in such areas as inorganic materials design and biomaterials design, to build a portfolio of next-generation products and new technologies to drive sustainable growth.

The Group's R&D organization in Japan comprises the Technical Management Unit, which is responsible for product development and modification connected directly to businesses; DIC Graphics Corporation's Technical Division; the R&D Management Unit, which is responsible for adding depth to existing technologies and fostering new basic technologies; and the New Business Development Headquarters, which is charged with creating strategic new businesses and commercializing business units' next-generation products. Overseas, the Group's R&D is conducted by the Sun Chemical Group's research centers in the United States, the United Kingdom and Germany; Qingdao DIC Finechemicals Co., Ltd., in the People's Republic of China (PRC); printing inks technical centers, polymer technical centers, solid compound technical centers and pigment technical centers in the PRC and the Asia–Pacific region; the Fine Chemical Technical Center–Korea; and an algae research center in the United States. These facilities are working as one with the new Tape Technical Center China, established in 2023, to promote the global development of products and technologies.

The DIC Group actively promotes the use of artificial intelligence (AI) and materials informatics, as well as the training of AI specialists, through initiatives spearheaded by the Data Science Center. Efforts also focus on accelerating open innovation, including through CVC (Corporate Venture Capital) and collaboration with other companies and academic institutions.

Research and development costs for the fiscal year ended December 31, 2022, were ¥15,144 million yen. In addition, technology-related expenses for the Company and DIC Graphics for product improvement and customization were 14,749 million yen. Recent R&D highlights in the period under review are described below.

(1) Packaging & Graphic

Highlights in the area of printing inks included the development and launch of a new series of low temperature–drying web offset inks that help lower CO_2 emissions attributable to use because less gas required for drying, a series of ultraviolet (UV)-curable coatings that earned the Biomass Mark from the Japan Organics Recycling Association (JORA), and antibacterial and antiviral overprint varnishes. In materials for packaging, the DIC Group expanded its lineup of products, introducing adhesives with barrier properties, coating and heat-resistant coatings that are compatible with recyclable mono-material packaging. The Group also worked to expand sales of products that contribute to the reduction of food loss, including easy-peel films for the lids of prepared food containers used by convenience stores and pulp molded containers for home-delivery frozen lunch boxes.

Overseas, the Sun Chemical Group focused on product development in line with its own sustainability strategy. These include coatings, adhesives, sealants that accommodate the shift from plastic to paper packaging, inks for recyclable mono-materials, and novel coating solutions with high barrier and protective properties that enhance the recyclability of packaging.

(2) Color & Display

As well as the development of new products in the area of pigments for color filters used in displays, the DIC Group's achievements in the area of color materials included the commercialization of pigments for water-based flexo inks with reduced concentrations of harmful amines. The Group also developed and began shipping samples of a new UV dispersing ingredient for sunscreen, an active cosmetic ingredient containing polysaccharide *SACRAN*™, extracted from Suizenji nori, a freshwater blue-green algae. In liquid crystal (LC) materials, the Group promoted the development of products for LC smart windows and light detection and ranging (LiDAR).

Overseas, the Sun Chemical Group inaugurated sales of a range of new products. Among these were two new orange and eight new plant-derived natural effect pigments for cosmetics, as well as eight new effect pigments for automobile coatings that expand color choices available for use on vehicles.

(3) Functional Products

R&D in the area of synthetic resins centered on low-dielectric materials for electronic circuit boards for 5G- and 6G-enabled communications devices and biomass resins such as an all-sustainable alkyd resin composed of bioderived and recycled monomers and bioderived solvents. In metal carboxylates, the DIC Group embarked on the provision of a new cobalt-free drier for coatings in the particularly environment-conscious European market. In addition, DIC's 100% biomass-based polyester plasticizer was accredited as a Certified Biobased Product under the United States Department of Agriculture (USDA)'s BioPreferred Program, which is expected to help boost its adoption by a broad range of industries, including in the United States, Europe and the PRC. In polyphenylene sulfide (PPS) compounds, the Group promoted the development of products with outstanding insulating properties and thermal conductivity for use in motor components for electric vehicles and e-bikes, while in industrial adhesive tapes the Group expanded its lineup of products for attaching smartphone components and fixing panels in the production of computers that deliver excellent removability and reworkability.

(4) Other

With the objective of creating new basic technologies, in the area of inorganic materials the DIC Group developed a mass production process for thermally conductive alumina fillers for highly filled heat-dissipating materials, as well as added to its lineup of fillers and commenced shipping of mass production samples. In bio-based materials, a project to develop naturally derived aspartic acid and a biodegradable waterborne superabsorbent polymer (SAP) using this aspartic acid specifically for use in disposable diapers. The Group also established the world's first indoor mass cultivation technology for Suizenji nori (Aphanothece sacrum) and began pilot production of extract *SACRAN*™, which boasts five times the moisture retention capacity of hyaluronic acid. In the area of thermoplastic materials for 3D printing, the Group's antiviral and antibacterial thermoplastic polyurethane resin (TPU) filament for additive manufacturing became the first such material to earn certification from the Society of International sustaining growth for Antimicrobial Articles (SIAA). The Group also developed and launched a new version of its *HatteTotte*® flexible wireless sensor for indoor environments that in addition to being able to detect temperature, humidity and illuminance detection can also measure CO_2 concentration to verify ventilation status.

III. Facilities

1. Overview of Capital Expenditures

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

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

Segment	Capital investment amount (Millions of yen)	Main content and purpose of facilities	financing method
Packaging & Graphic	14,835	Update of printing materials production facilities Investments to update and optimize production facilities, particularly for packaging inks, to improve production efficiency.	Own funds and borrowings
Color & Display	11,490	Reinforcement of pigments production facilities Investments to reinforce production facilities for pigments for coatings and functional pigments, among others, to bolster production efficiency in response to business expansion.	Own funds and borrowings
Functional Products	21,707	Expansion of synthetic resins production facilities Investments to enhance production facilities for waterborne and solvent-free synthetic resins for which demand is expanding as a result of growing awareness of the benefits of environment-friendly products.	Own funds and borrowings
Other and Corporate	1,457	Update of information systems Investments to shift to a new information system capable of supporting digital transformation (DX).	Own funds and borrowings
Subtotal	49,489	—	—

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

2. Major Facilities

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

(1) The Company

Site name (location)	Segment	Details of the facilities	Book value (Millions of yen)						Number of employees
			Buildings	Machinery and equipment	Furniture and fixtures	Land (Thousand m^2)	Construction in progress	Total	
Hokuriku Plant (Hakusan City, Ishikawa Prefecture)	Functional Products	Synthetic resin production facilities, etc.	2,745	2,579	86	1,443 (144)	119	6,973	227
Chiba Plant (Ichihara City, Chiba Prefecture)	Functional Products	Synthetic resin production facilities, etc.	7,778	5,766	911	2,005 (435)	381	16,841	685
Sakai Plant (Takaishi City, Osaka Prefecture)	Functional Products	Synthetic resin production facilities, etc.	3,397	3,501	635	1,584 (199)	489	9,606	358
Kashima Plant (Kamisu City, Ibaraki Prefecture)	Color & Display Functional Products	Organic pigment production facility, PPS polymer production facility, etc.	6,601	7,608	375	2,570 (603)	2,636	19,790	286
Saitama Plant (Kitaadachi-gun, Saitama Prefecture)	Packaging & Graphics Color & Display Functional Products	Industrial tape production facilities, etc.	2,704	939	586	1,990 (103)	37	6,257	376
Research and Development Institute (Sakura City, Chiba Prefecture)	Company-wide	Research facilities, etc.	4,317	110	1,537	2,769 (259)	16	8,749	288
Head Office (Chuo-Ku, Tokyo)	Packaging & Graphics Color & Display Functional Products Company-wide	Other equipment	1,778	182	924	2,001 (99)	102	4,987	919

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

(2) Status of domestic subsidiaries

Company name (principal location)	Segment	Details of the facilities	Book value (Millions of yen)						Number of employees
			Buildings	Machinery and equipment	Furniture and fixtures	Land (Thousand m^2)	Construction in progress	Total	
DIC Graphics Co., Ltd. Tokyo Plant, etc. (Itabashi-Ku, Tokyo, etc.)	Packaging & Graphics	Printing ink production facilities, etc.	1,559	2,639	134	1,037 (51)	55	5,424	645
Seiko PMC Co., Ltd. Mizushima Plant and others (Kurashiki City, Okayama Prefecture, and others)	Functional Products	Production facilities for papermaking chemicals, etc.	2,067	1,928	140	5,723 (146)	125	9,983	479
DIC Kitanihon Polymer Co., Ltd. Tohoku Plant and others (Katta-gun, Miyagi Prefecture)	Functional Products	Synthetic resin production facilities, etc.	1,239	1,321	60	694 (72)	1	3,315	99

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

(3) Status of overseas subsidiaries

Company name (headquarter location)	Segment	Details of the facilities	Book value (Millions of yen)						Number of employees
			Buildings	Machinery and equipment	Furniture and fixtures	Land (Thousand m^2)	Construction in progress	Total	
PT. DIC GRAPHICS (Jakarta, Indonesia)	Packaging & Graphics Color & Display	Printing ink production facilities, etc.	1,901	1,704	151	823 (131)	32	4,612	763
DIC Zhangjiagang Chemicals Co., Ltd. (Zhangjiagang, China)	Functional Products	Synthetic resin production facilities, etc.	1,328	2,296	382	132 (104)	14	4,152	206
Guangdong DIC TOD Resins Co., Ltd. (Shaoguan, China)	Functional Products	Synthetic resin production facilities, etc.	1,680	1,163	74	643 (135)	91	3,651	359
Sun Chemical Group Cooperative U. A. (Weesp, Netherlands)	Packaging & Graphics Color & Display Functional Products Other	Printing ink production facilities, Pigment production facilities, etc.	64,822	70,705	7,518	18,722 (10,513)	10,738	172,506	10,620

(Notes) 1. The above book value is the book value on the consolidated balance sheet after adjusting the book value of each company.
2. Sun Chemical Group Cooperative U. A. figures shown represent the value upon the consolidation of its subsidiaries.

3. Plans for New Installation and Retirement of Facilities

DIC Group conducts a wide variety of businesses both in Japan and overseas, and plans for new construction, expansion, and rationalization of facilities are diverse. The capital investment plan for the following consolidated fiscal year was ¥68 billion, and the breakdown by segment is as follows:

Segment	Planned Amount as of December 31, 2022 (Millions of yen)	Main Content and Purpose of Facilities	Financing Method
Packaging & Graphics	22,100	New construction of production facilities for packaging inks overseas, etc.	Own funds and borrowings
Color & Display	12,800	Renewal of production facilities for functional pigments in Japan, etc.	Own funds and borrowings
Functional Products	26,800	New construction of production facilities for synthetic resins in Japan, etc.	Own funds and borrowings
Other and Corporate	6,300	Investments to rationalize production facilities, update of information systems, etc.	Own funds and borrowings
Subtotal	68,000	—	—

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

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

IV. Information on the Company

1. Information on the Company's Shares

(1) Total Number of Shares, etc.

① [Number of shares authorized]

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

② [Number of shares issued]

Type	Number of shares issued (as of December 31, 2022)	Number of shares issued (as of March 29, 2023)	Financial instruments exchanges on which the Company is listed or authorized financial instruments firms	Description
Common stock	95,156,904	95,156,904	Tokyo Stock Exchange (Prime Market)	Unit number: 100 shares
Total	95,156,904	95,156,904	—	—

(2) Stock Acquisition Rights

① [Stock option system]

Not applicable.

② [Rights plan]

Not applicable.

③ [Other stock acquisition rights, etc.]

Not applicable.

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

Not applicable.

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

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

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

(5) Shareholder Composition

As of December 31, 2022

	Status of shares (1 unit = 100 shares)								Number of shares less than one unit
	Japanese national and local governments	Japanese financial institutions	Japanese financial instruments firms	Other Japanese corporations	Foreign shareholders: Other than individual investors	Foreign shareholders: Individual investors	Japanese individual investors and others	Total	
Number of shareholders	—	90	38	489	283	50	47,219	48,169	—
Number of shares owned (Units)	—	355,082	47,084	157,794	225,022	95	164,654	949,731	183,804
Percentage of shares owned (%)	—	37.39	4.96	16.61	23.69	0.01	17.34	100.00	—

(Notes) 1. The Company’s 372,723 shares of treasury stock are included in “Japanese individual investors and others” (3,727 units) and “Number of shares less than one unit” (23 shares). The total number of shares of treasury stock—372,723—is the number of shares listed in the shareholder registry. As of December 31, 2022, the actual number of shares of treasury stock owned was 372,423.

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

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

(6) Major Shareholders

As of December 31, 2022

Name of shareholder	Address	Number of shares owned	Percentage of total issued shares (excluding treasury stock) (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo, Japan	13,444,300	14.18
SHOEI INC.	16-2, Soto-Kanda 2-chome, Chiyoda-ku, Tokyo, Japan	12,694,386	13.39
Custody Bank of Japan, Ltd. (Trust Account)	8-12, Harumi 1-chome, Chuo-ku, Tokyo, Japan	5,223,600	5.51
The Dai-ichi Life Insurance Company, Limited (Standing proxy: Custody Bank of Japan, Ltd.)	13-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo, Japan (8-12, Harumi 1-chome, Chuo-ku, Tokyo, Japan)	3,500,009	3.69
SMBC Nikko Securities Inc.	3-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo, Japan	2,810,400	2.97
Custody Bank of Japan, Ltd. (Trust Account 4)	8-12, Harumi 1-chome, Chuo-ku, Tokyo, Japan	2,493,000	2.63
JP MORGAN CHASE BANK 385632 (Standing proxy: Mizuho Bank, Ltd.)	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM (Shinagawa Intercity A, 15-1, Konan 2-chome, Minato-ku, Tokyo)	2,152,023	2.27
Aioi Nissay Dowa Insurance Co., Ltd. (Standing proxy: The Master Trust Bank of Japan, Ltd.)	28-1, Ebisu 1-chome, Shibuya-ku, Tokyo, Japan (11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo, Japan)	2,020,859	2.13
BNYMSANV AS AGENT/CLIENTS LUX UCITS NON TREATY 1 (Standing proxy: MUFG Bank, Ltd.)	VERTIGO BUILDING - POLARIS 2-4 RUE EUGENE RUPPERT L-2453 LUXEMBOURG GRAND DUCHY OF LUXEMBOURG (7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo, Japan)	1,917,700	2.02
NIPPON LIFE INSURANCE COMPANY (Standing proxy: The Master Trust Bank of Japan, Ltd.)	6-6, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan (11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo, Japan)	1,900,075	2.00
Total	—	48,156,352	50.81

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

The Master Trust Bank of Japan, Ltd. (Trust Account):	Securities investment trust: 5,226,600	Pension trust: 491,800
Custody Bank of Japan, Ltd. (Trust Account):	Securities investment trust: 1,923,400	Pension trust: 147,700
Custody Bank of Japan, Ltd. (Trust Account 4):	Pension trust: 536,200	

2. In a report of large volume possession (report of changes) provided by Nomura Asset Management Co., Ltd., for public inspection on April 21, 2022, the following shares are attributed to NOMURA INTERNATIONAL PLC and one joint holder, Nomura Asset Management Co., Ltd., as of April 15, 2022. However, the actual number of shares held by these companies as of December 31, 2022 are not included in major shareholders above because the Company cannot confirm the number.

Name of shareholder	Address	Number of shares owned	Percentage of total issued shares (excluding treasury stock) (%)
NOMURA INTERNATIONAL PLC	1 Angel Lane, London EC4R 3AB, United Kingdom	191,160	0.20
Nomura Asset Management Co., Ltd.	2-1, 2-chome, Toyosu, Koto-ku, Tokyo Japan	4,432,400	4.66
Total		4,623,560	4.86

3. In a report of large volume possession (report of changes) provided by Mizuho Bank, Ltd., for public inspection on April 22, 2022, the following shares are attributed to Mizuho Bank, Ltd. and two joint holders as of April 15, 2022. However, the actual number of shares held by these companies as of December 31, 2022 are not included in major shareholders above because the Company cannot confirm the number.

Name of shareholder	Address	Number of shares owned	Percentage of total issued shares (excluding treasury stock) (%)
Mizuho Bank, Ltd.	5-5, Otemachi 1-chome, Chiyoda-ku, Tokyo, Japan	829,369	0.87
Mizuho Trust & Banking Co., Ltd.	3-3, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan	638,200	0.67
Asset Management One Co., Ltd.	8-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan	2,515,200	2.64
Total		3,982,769	4.19

4. In a report of large volume possession (report of changes) provided by Sumitomo Mitsui Trust Asset Management Co., Ltd., for public inspection on December 6, 2022, the following shares are attributed to Sumitomo Mitsui Trust Asset Management Co., Ltd. and one joint holder, Nikko Asset Management Co., Ltd., as of November 30, 2022. However, the actual number of shares held by these companies as of December 31, 2022 are not included in major shareholders above because the Company cannot confirm the number.

Name of shareholder	Address	Number of shares owned	Percentage of total issued shares (excluding treasury stock) (%)
Sumitomo Mitsui Trust Asset Management Co., Ltd.	1-1, Shibakoen 1-chome, Minato-ku, Tokyo, Japan	4,872,300	5.12
Nikko Asset Management Co., Ltd.	7-1, Akasaka 9-chome, Minato-ku, Tokyo, Japan	1,782,900	1.87
Total		6,655,200	6.99

5. In a report of large volume possession provided by MUFG Bank, Ltd., for public inspection on January 6, 2023, the following shares are attributed to MUFG Bank, Ltd. and three joint holders as of December 26, 2022. However, the actual number of shares held by these companies as of December 31, 2022 are not included in major shareholders above because the Company cannot confirm the number.

Name of shareholder	Address	Number of shares owned	Percentage of total issued shares (excluding treasury stock) (%)
MUFG Bank, Ltd.	7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo, Japan	971,608	1.02
Mitsubishi UFJ Trust and Banking Corporation	4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, Japan	2,249,500	2.36
Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	12-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo, Japan	813,000	0.85
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	9-2, Otemachi 1-chome, Chiyoda-ku, Tokyo, Japan	874,043	0.92
Total		4,908,151	5.16

(7) Voting Rights

① [Issued shares]

As of December 31, 2022

Category	Number of shares		Number of voting rights (Units)	Description
Shares without voting rights	—		—	—
Shares with restricted voting rights (treasury stock, etc.)	—		—	—
Shares with restricted voting rights (other)	—		—	—
Shares with full voting rights (treasury stock, etc.)	Common stock	372,400	—	Shares less than one unit (100 shares)
Shares with full voting rights (other)	Common stock	94,600,700	946,007	Shares less than one unit (100 shares)
Shares less than one unit	Common stock	183,804	—	—
Number of issued shares	95,156,904		—	—
Voting rights of all shareholders	—		946,007	—

(Note) Shares of common stock in "Shares with full voting rights (other)" include 300 shares (constituting 3 units of voting rights) registered in the name of JASDEC and 131,700 shares held by the BBT (constituting 1,317 voting rights). The 1,317 voting rights for the shares held by the BBT are not exercised.

② [Treasury stock, etc.]

As of December 31, 2022

Name of shareholder	Address	Number of shares held under own name	Number of shares held under another name	Number of shares owned	Percentage of total issues shares (%)
(Shares of treasury stock) DIC Corporation	35-58, Sakashita 3-chome, Itabashi-ku, Tokyo, Japan	372,400	—	372,400	0.39
Total		372,400		372,400	0.39

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

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

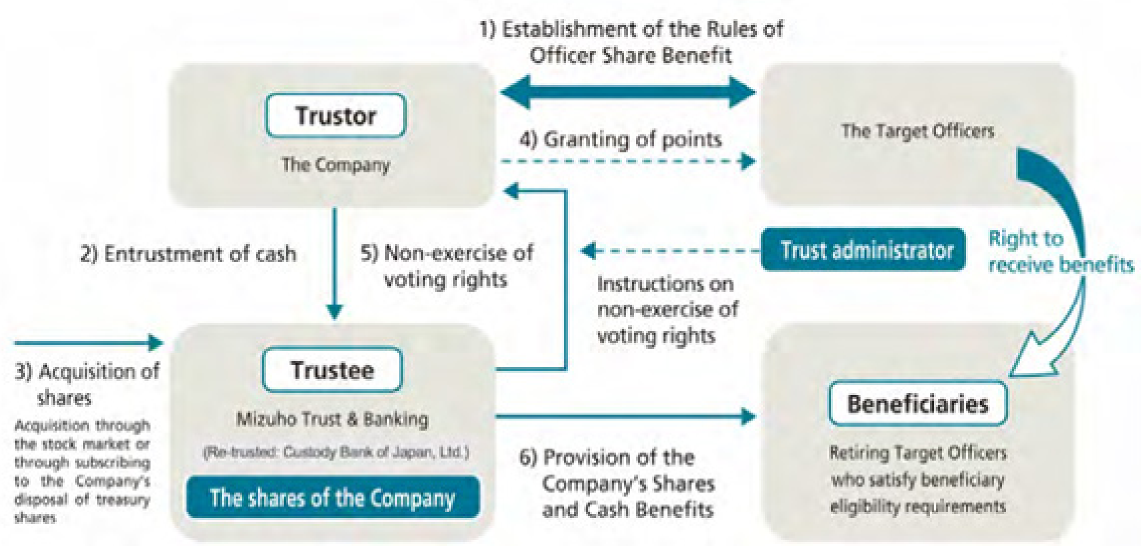
(8) Share Ownership by Directors/Other Officers and Employees

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

1. Structure of the Plan

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

Structure of the Plan



① The Company established the Rules of Officer Share Benefit within the scope of the structure approved at the 119th Annual General Meeting of Shareholders and the 123rd Annual General Meeting of Shareholders.

② The Company entrusts cash within the scope of the approved proposals described in ①.

③ The trust acquires shares of the Company through the stock market or by subscribing to the Company's disposal of treasury shares using the cash entrusted as described in ②.

④ The Company grants points to the target officers in accordance with the Rules of Officer Share Benefit.

⑤ The BBT does not exercise the voting rights of the shares of the Company in the trust account in accordance with the instructions from the trust administrator independent of the Company.

⑥ The BBT provides those individuals who retire from office as a target officer and fulfill the beneficiary eligibility requirements stipulated in the Rules of Officer Share Benefit with shares of the Company commensurate with the number of points accumulated as of retirement. If, however, a target officer fulfills separate requirements stipulated in the Rules of Officer Share Benefit, the Company provides a cash equivalent of the amount that would be obtained if the shares of the Company were converted at market price for a certain proportion of the number of points accumulated as of retirement.

2. Total number of shares expected to be acquired by eligible parties (as of the end of the fiscal year ended December 31, 2022)

131,700

3. Scope of individuals eligible as beneficiaries of the plan

Individuals who retire from office as a target officer and fulfill the beneficiary eligibility requirements stipulated in the Rules of Officer Share Benefit.

2. Acquisition, etc., of Treasury Stock

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

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

Not applicable.

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

Not applicable.

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

Category	Number of shares	Total value (Yen)
Treasury stock acquired during the fiscal year ended December 31, 2022	2,173	5,525,611
Treasury stock acquired during the current period for acquisition	327	778,449

(Note) Treasury stock acquired during the current period for acquisition does not include shares constituting less than one unit purchased between March 1, 2023, and the filing date of this report.

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

Category	Fiscal year ended December 31, 2022		Current period for acquisition	
	Number of shares	Total value of shares disposed (Yen)	Number of shares	Total value of shares disposed (Yen)
Acquired treasury stock for which subscribers were solicited	—	—	—	—
Acquired treasury stock that was disposed of	—	—	—	—
Acquired treasury stock for which transfer of shares was conducted in association with a merger, share exchange, share delivery or corporate separation	—	—	—	—
Other	—	—	—	—
Shares of treasury stock held	372,423	—	372,750	—

(Note) Treasury stock held during the current period for acquisition does not include shares constituting less than one unit purchased between March 1, 2023, and the filing date of this report.

3. Dividend Policy

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

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

In line with the above policy, the following appropriations of surplus were made for the payment of cash dividends applicable to the fiscal year ended December 31, 2022:

Date of resolution	Total amount of dividends (Millions of yen)	Dividend per share (Yen)
Resolution of the Board of Directors (August 10, 2022)	4,739	50
Resolution at the annual general meeting of shareholders (March 29, 2023)	4,739	50

(Notes) 1. The total amount of dividends approved by resolution of the Board of Directors on August 10, 2022, includes dividends of ¥7 million for the Company's shares held by the Board Benefit Trust (BBT).

2. The total amount of dividends approved by resolution at the annual general meeting of shareholders held on March 29, 2023, includes dividends of ¥7 million for the Company's shares held by the BBT.

4. Corporate Governance

(1) Overview of corporate governance

1. Basic approach to corporate governance

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

2. Corporate governance organization

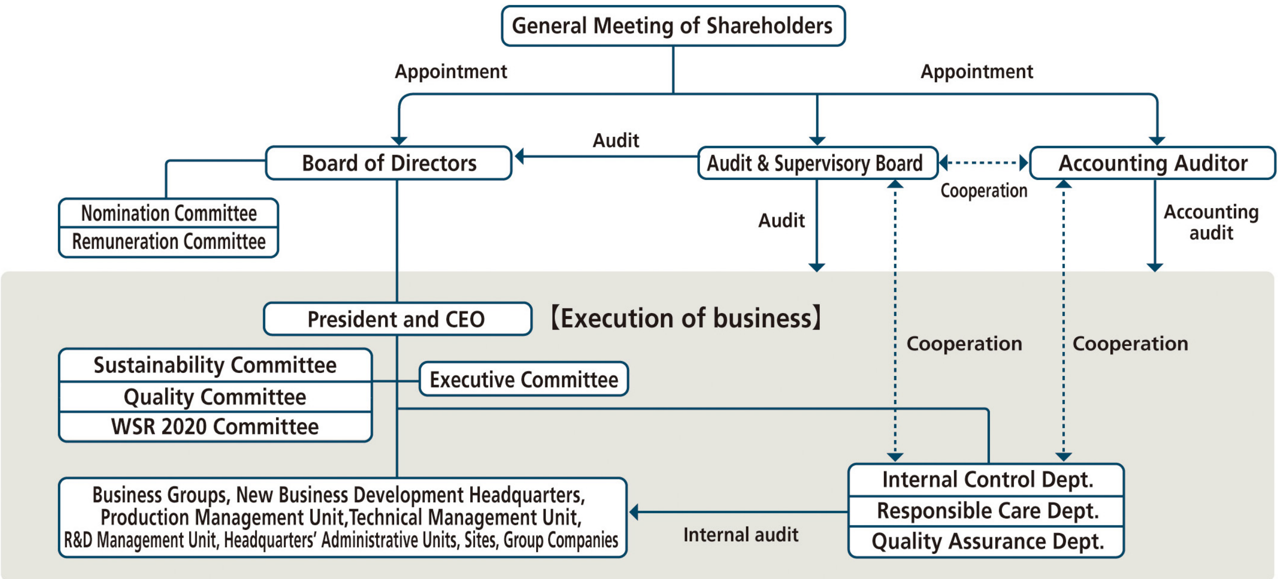
(1) Basic explanation regarding the organization of the Company

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

(2) Rationale behind current corporate governance system

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

(3) Corporate governance organization



① Board of Directors

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

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

② Nomination Committee

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

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

③ Remuneration Committee

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

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

④ Executive Committee

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

As of the date of publication, the committee members were: President and CEO Kaoru Ino (Committee Chair); Executive Vice President Toshifumi Tamaki; Senior Managing Executive Officer Masaya Nakafuji; Managing Executive Officers Kazuo Hatakenaka, Kiyotaka Kawashima, Masamichi Sota, Kiyofumi Takano, Yoshinari Akiyama, Myron Petruch, Takeshi Asai, Shuji Furuta, Takashi Ikeda and Koji Asada; and Executive Officers Paul Koek, Masahiro Kikuchi, Yuji Morinaga, Toshiro Ariga, Yuji Kikuchi, Kuniko Torayama, Takao Iribe, Yoshiharu Ootoshi and Kevin Michaelson.

⑤ Sustainability Committee

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

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

⑥ Quality Committee

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

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

⑦ WSR 2020 Committee

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

As of the date of publication, the committee members were: President and CEO Kaoru Ino (Committee Chair); Executive Vice President Toshifumi Tamaki (Committee Vice Chair); Senior Managing Executive Officer Masaya Nakafuji; Managing Executive Officers Kiyotaka Kawashima, Masamichi Sota, Kiyofumi Takano, Yoshinari Akiyama, Takeshi Asai, Shuji Furuta, Takashi Ikeda and Koji Asada; and Executive Officers Yuji Morinaga, Toshiro Ariga, Yuji Kikuchi, Kuniko Torayama, Masaaki Kusaka, Takao Iribe and Yoshiharu Ootoshi.

⑧Audit & Supervisory Board

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

As of the date of publication, Board members were: Full-time Audit & Supervisory Board Members Akihiro Ikushima (Board chair) and Hiroyuki Ninomiya; and Outside Audit & Supervisory Board Members Keita Nagura and Keiko Kishigami.

3. Internal control and risk management systems

The Board of Directors has created a Policy on Internal Controls, in line with which it has prepared and operates a system of internal controls that includes systems relating to the management of risk.

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.

*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. System of internal controls

1. Systems for ensuring that the performance of duties by Directors and employees of the DIC Group complies with laws, regulations and the Company's Articles of Incorporation

1) The Company shall prepare regulations for 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 should comply with, and to disseminate it.

4) The Company shall establish an internal auditing department and shall monitor the status of 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 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 used in the execution of business, thereby creating 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 on the DIC Group by such antisocial elements.

2. Systems for ensuring that the duties of Directors of the DIC 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 for 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 annual budgets based on management policies and management strategies of the DIC Group and, through dissemination of the same, ensure common goals are shared within the DIC Group. The Company shall make progress reports to the Board of Directors.

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 the minutes of meetings of the Board of

Directors and Ringi documents, shall be recorded, retained and managed appropriately based on 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.

4. Regulations and other systems relating to management of the 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 ensure its effectiveness by repeating the plan–do–check–act (PDCA) cycle.

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 business execution and 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.

6. Systems for ensuring that audits by Audit & Supervisory Board Members are conducted effectively

1) In addition to attending meetings of 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 they have made a 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.

4. Outline of liability limitation contracts

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

5. Outline of D&O liability insurance

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

6. Number of Directors

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

7. Required conditions for resolution to elect a Director

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

8. Determination of interim dividends

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

9. Determination of the acquisition of treasury stock

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

10. Stipulations in the Articles of Incorporation exempting Directors and Audit & Supervisory Board Members from liability

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

11. Required conditions for special resolution of the general meetings of shareholders

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

(2) Executives

1. Directors and Audit & Supervisory Board Members

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

Current position	Name	Date of birth	Brief personal history		Term of service	Number of the Company’s shares held (Thousands)
Chairman of the Board of Directors	Masayuki Saito	November 8, 1954	April 1977	Joined the Company	See Note 3	17^{8}
			April 2007	General Manager, Finance Dept.		
			April 2008	Executive Officer; In Charge of Finance & Accounting Div.		
			June 2010	Director; Executive Officer; In Charge of Finance & Accounting Div.		
			April 2011	Director; Managing Executive Officer; In Charge of Finance & Accounting Div.		
			April 2012	Representative Director; Senior Managing Executive Officer: Assistant to President and CEO; In Charge of Finance & Accounting Div.		
			January 2016	Representative Director; Executive Vice President; Assistant to President and CEO; CFO		
			January 2020	Representative Director; Executive Vice President; Assistant to President and CEO		
			January 2021–present	Chairman of the Board of Directors		
Representative Director, President and CEO	Kaoru Ino	September 15, 1957	April 1981	Joined the Company	See Note 3	20^{7}
			April 2008	General Manager, Finance Dept.		
			April 2011	General Manager, Purchasing and Logistics Dept.		
			April 2012	Executive Officer; General Manager, Corporate Planning Dept.		
			January 2014	Executive Officer; In Charge of Corporate Strategy Div.; General Manager, Corporate Planning Dept.		
			January 2016	Managing Executive Officer; In Charge of Corporate Strategy Div. and Kawamura Memorial DIC Museum of Art		
			March 2016	Director; Managing Executive Officer; In Charge of Corporate Strategy Div. and Kawamura Memorial DIC Museum of Art		
			January 2018–present	Representative Director; President and CEO		

Current position	Name	Date of birth	Brief personal history		Term of service	Number of the Company’s shares held (Thousands)
Representative Director; Executive Vice President; Assistant to President and CEO	Toshifumi Tamaki	January 30, 1956	April 1980	Joined the Company	See Note 3	13[7]
			October 2010	General Manager, Polymer Technical Div. 2		
			April 2012	Executive Officer; General Manager, Corporate R&D Div.; General Manager, Color Science Laboratory; General Manager, Central Research Laboratories		
			January 2016	Managing Executive Officer; In Charge of Technical Segment (Technical Administrative Div. and Corporate R&D Div.); General Manager, Technical Administrative Div.		
			January 2018	Managing Executive Officer; Head of Corporate Strategy Unit; In Charge of Kawamura Memorial DIC Museum of Art		
			March 2018	Director; Managing Executive Officer; Head of Corporate Strategy Unit; In Charge of Kawamura Memorial DIC Museum of Art		
			January 2021–present	Representative Director; Executive Vice President; Assistant to President and CEO		
Director	Yoshihisa Kawamura	November 12, 1960	April 1984	Joined Mitsui & Co., Ltd.	See Note 3	85
			April 1991	Joined the Company		
			June 2004	Executive Officer; General Manager, Strategic Global Purchasing Div.		
			June 2007	Director; General Manager, Corporate Strategic Planning Dept.		
			April 2008	Director; Managing Executive Officer; President, Graphic Arts Business Operations		
			July 2011	Director; Managing Executive Officer; President, Neo-Graphic Arts Materials Business Operations		
			January 2014–present	Director		

Current position	Name	Date of birth	Brief personal history		Term of service	Number of the Company's shares held (Thousands)
Director; Managing Executive Officer; Head of Corporate Strategy Unit; In Charge of Kawamura Memorial DIC Museum of Art	Takeshi Asai	April 3, 1964	April 1988	Joined the Company	See Note 3	5[7]
			May 2008	Director, Sun Chemical Corporation		
			October 2010	Managing Director, DIC Europe GmbH		
			January 2016	General Manager, Business Performance Control Dept.		
			January 2018	Executive Officer; General Manager, Corporate Planning Dept.; In Charge of Osaka Branch and Nagoya Branch		
			January 2021	Executive Officer; Head of Corporate Strategy Unit; In Charge of Kawamura Memorial DIC Museum of Art		
			March 2021	Director; Executive Officer; Head of Corporate Strategy Unit; In Charge of Kawamura Memorial DIC Museum of Art		
			January 2022– present	Director; Managing Executive Officer; Head of Corporate Strategy Unit; In Charge of Kawamura Memorial DIC Museum of Art		
Director; Managing Executive Officer; Head of Finance & Accounting Unit; CFO	Shuji Furuta	June 11, 1964	April 1987	Joined the Company	See Note 3	6[7]
			January 2016	General Manager, Finance Dept.		
			January 2019	Executive Officer; Head of Finance and Accounting Unit		
			January 2020	Executive Officer; Head of Finance and Accounting Unit; CFO		
			March 2021	Director; Executive Officer; Head of Finance and Accounting Unit; CFO		
			January 2022–present	Director; Managing Executive Officer; Head of Finance and Accounting Unit; CFO		
Director[1]	Yoshiaki Tamura	October 3, 1954	April 1979	Joined Asahi Glass Co., Ltd. (Currently, AGC Inc.)	See Note 3	—
			January 2007	Executive Officer, AGC Inc.		
			January 2010	Senior Executive Officer, AGC Inc.		
			January 2013	Executive Vice President, AGC Inc.		
			March 2013	Representative Director and Executive Vice President, AGC Inc.		
			March 2014	Executive Vice President, AGC Inc.		
			March 2017	Executive Fellow, AGC Inc.		
			March 2018–present	Outside Director, the Company		

Current position	Name	Date of birth	Brief personal history		Term of service	Number of the Company's shares held (Thousands)
Director[1]	Kuniko Shoji	January 8, 1954	April 1977	Joined Mochida Pharmaceutical Co., Ltd.	See Note 3	—
			July 1986	Joined Johnson & Johnson Medical K.K. (Currently, Johnson & Johnson K.K.)		
			September 2002	Joined Terumo Corporation		
			June 2004	Executive Officer, Terumo Corporation		
			June 2010	Director and Senior Executive Officer, Terumo Corporation		
			April 2017	Director and Advisor, Terumo Corporation		
			June 2017	Advisor, Terumo Corporation		
			March 2019–present	Outside Director, the Company		
Director[1]	Masami Fujita	Septembe r 22, 1956	April 1980	Jointed Fujitsu Limited	See note 3	2
			June 2012	Representative Director and Vice President, Fujitsu Limited		
			April 2016	Representative Director and President, Fujitsu Marketing Limited (Currently, Fujitsu Japan Limited)		
			January 2019	Advisor, Fujitsu Marketing Limited (Currently, Fujitsu Japan Limited)		
			April 2019	Executive Vice President, SHINKO ELECTRIC INDUSTRIES CO., LTD.		
			June 2019	Representative Director and President, SHINKO ELECTRIC INDUSTRIES CO., LTD.		
			June 2021–present	Representative Director and Chairman, SHINKO ELECTRIC INDUSTRIES CO., LTD.		
			March 2023–present	Outside Director, the Company		
Full-time Audit & Supervisory Board Member	Hiroyuki Ninomiya	July 8, 1959	April 1984	Joined the Company	See Note 4	4[8]
			April 2008	General Manager, Accounting Dept.		
			January 2016	Executive Officer; In Charge of Finance and Accounting Div.		
			January 2018	Executive Officer; Head of Finance and Accounting Unit		
			January 2019	Executive Officer; ESG Unit		
			March 2019–present	Audit & Supervisory Board Member		

<table>
<tr><th>Current position</th><th>Name</th><th>Date of birth</th><th colspan="2">Brief personal history</th><th>Term of service</th><th>Number of the Company’s shares held (Thousands)</th></tr>
<tr><td rowspan="6">Full-time Audit & Supervisory Board Member</td><td rowspan="6">Akihiro Ikushima</td><td rowspan="6">September 8, 1960</td><td>April 1983</td><td>Joined the Company</td><td rowspan="6">See Note 5</td><td rowspan="6">4</td></tr>
<tr><td>April 2012</td><td>General Manager, General Affairs and HR Dept.</td></tr>
<tr><td>January 2016</td><td>Representative Director and President, DIC KOREA CORPORATION</td></tr>
<tr><td>January 2019</td><td>General Manager, Internal Control Dept.</td></tr>
<tr><td>January 2020</td><td>Manager, Internal Control Dept.</td></tr>
<tr><td>March 2020–present</td><td>Audit & Supervisory Board Member</td></tr>
<tr><td rowspan="4">Audit & Supervisory Board Member[2]</td><td rowspan="4">Keita Nagura</td><td rowspan="4">January 11, 1971</td><td>April 1998–present</td><td>Registered as an attorney (Osaka Bar Association)</td><td rowspan="4">See Note 6</td><td rowspan="4">—</td></tr>
<tr><td>April 1998–present</td><td>Joined Yodoyabashi Godo Law Office (Currently, Yodoyabashi & Yamagami Legal Professional Corporation)</td></tr>
<tr><td>February 2002–present</td><td>Changed registration as an attorney (Dai-Ichi Tokyo Bar Association)</td></tr>
<tr><td>March 2021–present</td><td>Outside Audit & Supervisory Board Member, the Company</td></tr>
<tr><td rowspan="6">Audit & Supervisory Board Member[2]</td><td rowspan="6">Keiko Kishigami</td><td rowspan="6">January 28, 1957</td><td>October 1985</td><td>Joined Peat Marwick Minato (Currently, Ernst & Young ShinNihon LLC)</td><td rowspan="6">See Note 4</td><td rowspan="6">—</td></tr>
<tr><td>August 1989</td><td>Registered as a certified public accountant</td></tr>
<tr><td>December 1997</td><td>Partner, Century Audit Corporation (Currently, Ernst & Young ShinNihon LLC)</td></tr>
<tr><td>May 2004</td><td>Representative Partner (Currently, Senior Partner), Ernst & Young ShinNihon (Currently, Ernst & Young ShinNihon LLC)</td></tr>
<tr><td>September 2018–present</td><td>Board Member, WWF Japan</td></tr>
<tr><td>March 2023–present</td><td>Outside Audit & Supervisory Board Member, the Company</td></tr>
<tr><td colspan="6">Total</td><td>160</td></tr>
</table>

(Notes) 1. Yoshiaki Tamura, Kuniko Shoji and Masami Fujita are Outside Directors of the Company.
2. Keita Nagura and Keiko Kishigami are Outside Audit & Supervisory Board Members of the Company.
3. March 29, 2023–Conclusion of the final annual general meeting of shareholders held in the subsequent fiscal year
4. March 29, 2023–Conclusion of the final annual general meeting of shareholders held in the subsequent four fiscal years
5. March 26, 2020–Conclusion of the final annual general meeting of shareholders held in the subsequent four fiscal years
6. March 30, 2021–Conclusion of the final annual general meeting of shareholders held in the subsequent four fiscal years
7. The number of the Company’s shares held includes the number of those to be provided under the performance-based stock compensation plan, a certain portion of which will be sold at market and provided in cash equivalent to the proceeds from the sale.
8. The number of the Company’s shares held includes those shares to be provided under the performance-based stock compensation plan for years served as an executive officer, a certain proportion of which will be sold at market and provided in cash equivalent to the proceeds from the sale.

9. As stipulated in Article 329, Paragraph 3, of the Companies Act, the Company has appointed one Alternate Audit & Supervisory Board Member in the event that the number of Outside Audit & Supervisory Board Members falls below the required level. The Alternate Audit & Supervisory Board Member is as follows:

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

2. Outside Directors and Outside Audit & Supervisory Board Members

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

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

Prior to March 2017, Outside Director, Yoshiaki Tamura, was an Executive Vice President of AGC Inc. Although the Company purchased raw materials from AGC in the fiscal year ended December 31, 2022, these transactions accounted for less than 1% of annual consolidated net sales of AGC or the Company for the period. The Company also sold products to, and purchased products from, Dai Nippon Printing Co., Ltd., where Outside Director Yoshiaki Tamura serves as an Outside Director, but these transactions accounted for less than 1% of annual consolidated net sales of Dai Nippon Printing or the Company for the period.

Prior to March 2016, Outside Director, Masami Fujita, was a Representative Director and Vice President of Fujitsu Limited. He also served as Representative Director and President of Fujitsu Marketing Limited (Currently, Fujitsu Japan Limited) from April 2016 to December 2018. Although the Company had system use-related transactions with these two companies in the fiscal year ended December 31, 2022, these transactions accounted for less than 1% of annual consolidated net sales of these companies or the Company for the period.

In the fiscal year ended December 31, 2022, the Company purchased furniture and other items from Okamura Corporation, where Outside Audit & Supervisory Board Member Keiko Kishigami serves as an Outside Audit & Supervisory Board Member, as well as subcontracted work to Sony Group Corporation and sold products to, and purchased products from, Sumitomo Seika Chemicals Company, Limited, where Outside Audit & Supervisory Board Member Keiko Kishigami serves as an Outside Director. However, these transactions accounted for less than 1% of the annual consolidated net sales of these companies or the Company for the period.

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

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

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

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

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

Independence Standards for Independent Outside Officers

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

1. Individuals who are executives of the Company or of one of its consolidated subsidiaries (collectively, the "DIC Group") at present or have been in the preceding 10 years
2. Individuals to whom any of the following items has applied in the preceding 3 years:
   ① A principal business partner of the DIC Group (a business partner with which transactions in a single fiscal year exceed 3% of the DIC Group's consolidated net sales in that year) or an executive of a business partner to which this description applies.
   ② An individual for which the DIC Group is a principal business partner (a business partner with which transactions in a single fiscal year exceed 3% of the partner's consolidated net sales in that year) or an executive of an entity to which this description applies.
   ③ A shareholder who holds 5% or more of the voting rights of the Company or an executive of a said shareholder to which this description applies.
   ④ A principal lender to the DIC Group (a lender from which loans in a single fiscal year exceed 3% of the DIC Group's total assets in that year) or an executive of a said lender to which this description applies.
   ⑤ An individual who has received contributions from the DIC Group in a year that exceed more than 10 million yen or an individual who belongs to an entity to which this description applies.
   ⑥ An accountant who serves as an accounting auditor or accounting advisor for the DIC Group or an individual who is an employee, partner or associate of an audit firm to which this description applies.
   ⑦ Any individual to whom item ⑥ does not apply but has received remuneration from the DIC Group that exceeds 10 million yen in a year, excluding remuneration received as a director or corporate officer of the DIC Group, as a provider of professional services, such as consulting, accounting or legal services, or an individual of an organization that received remuneration in excess of 3% of its consolidated net sales in a fiscal year as compensation for professional services.
   ⑧ An executive of another company, in the event that an executive of the Company is appointed to an outside officer position at that company.
3. Spouses and relatives within the second degree of kinship of individuals listed in 1 or 2 above.
4. An individual whose term as an outside officer of the Company exceeds 8 years.

(3) Mutual cooperation in the supervision and implementation of audits by Outside Directors and Audit & Supervisory Board Members and audits conducted by the internal auditing department, Audit & Supervisory Board Members and accounting auditors, and relationships between these audits and the internal control department

Outside Directors regularly receive reports from management and the internal control department on important matters related to the Board of Directors' agenda and management of the Company and express their own opinions as necessary. Outside Audit & Supervisory Board Members regularly receive reports from the accounting auditors and the internal auditing department and express their own opinions as necessary. Outside Audit & Supervisory Board Members also attend regular quarterly meetings between Audit & Supervisory Board Members and top management, and receive reports from the individual in charge of the internal control department, and express their own opinions as necessary. In addition, Outside Audit & Supervisory Board Members receive reports on the results of audits conducted by other Audit & Supervisory Board Members and interviews with the internal control department and work to share information.

(3) Audits

1. Audit & Supervisory Board Members' audits

(1) Organization and personnel

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

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

Attendance at Audit & Supervisory Board meetings by Board Members in the fiscal year ended December 31, 2022, was as follows:

Position	Name	Attendance rate	
		Audit & Supervisory Board meetings	Board of Directors' meetings
Full-time Audit & Supervisory Board Member	Akihiro Ikushima	100% (17/17)	100% (15/15)
Full-time Audit & Supervisory Board Member	Hiroyuki Ninomiya	100% (17/17)	100% (15/15)
Outside Audit & Supervisory Board Member	Michiko Chiba	100% (17/17)	100% (15/15)
Outside Audit & Supervisory Board Member	Keita Nagura	100% (17/17)	100% (15/15)

Note: Michiko Chiba's term of service expired and Keiko Kishigami was elected at the annual shareholders' meeting for the fiscal year ended December 31, 2022.

(2) Activities of the Audit & Supervisory Board

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

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

(3) Principal activities of Audit & Supervisory Board Members

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

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

2. Internal audits

The internal auditing department—comprising local teams of employees covering Japan (11), the Asia–Pacific region (7), the PRC (3) and the Americas, Europe, the Middle East and Africa (16)—is charged with internal auditing, which includes monitoring the effectiveness of internal controls, based on annual audit plans, and selects audit targets based on risk assessments.

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

3. Accounting audits

(1) Name of audit firm

Deloitte Touche Tohmatsu LLC

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

49 years

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

(3) Certified public accountants who executed accounting audit

Takaya Otake

Teppei Yamamoto

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

Certified public accountants: 17

Others: 39

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

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

After evaluation for the fiscal year ended December 31, 2022, the Audit & Supervisory Board determined that Deloitte Touche Tohmatsu LLC had the necessary expertise, independence, quality management system and global network corresponding to audits for DIC group companies located in various countries to meet its criteria.

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

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

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

4. Remuneration for audits

(1) Remuneration for the accounting auditors, etc.

Classification	Previous fiscal year ended December 31, 2021		Current fiscal year ended December 31, 2022	
	Fees for audit services (Millions of yen)	Fees for non-audit services (Millions of yen)	Fees for audit services (Millions of yen)	Fees for non-audit services (Millions of yen)
The Company	154	2	157	39
Consolidated subsidiaries	75	6	79	4
Total	228	8	236	43

Non-audit services for the Company include advisories for introduction of settlement of accounts management system and others.

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

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

Classification	Previous fiscal year ended December 31, 2021		Current fiscal year ended December 31, 2022	
	Fees for audit services (Millions of yen)	Fees for non-audit services (Millions of yen)	Fees for audit services (Millions of yen)	Fees for non-audit services (Millions of yen)
The Company	1	35	1	9
Consolidated subsidiaries	615	65	798	79
Total	617	100	799	88

Non-audit services for the Company include market research and others.

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

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

Previous fiscal year ended December 31, 2021: Not applicable

Current fiscal year ended December 31, 2022: Not applicable

(4) Policy on determining fees for audits

Not applicable

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

The Audit & Supervisory Board received briefings from directors and senior executives, as well as from the accounting auditor, regarding the accounting auditor's performance, results and quality of audits conducted in past years, the audit plan for the fiscal year ended December 31, 2022, and the basis for calculating the estimated remuneration. After reviewing these matters, the Audit & Supervisory Board approved remuneration for the accounting auditor for the fiscal year ended December 31, 2022, deeming it appropriate, given the audit plan, and sufficient to maintain audit quality.

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

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

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

(4) Remuneration for officers

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

(1) The Company has established an executive compensation system based on a policy for remuneration designed to secure diverse, capable human resources to facilitate the steady implementation of management plans and business strategies designed to ensure sustainable development and the medium- to long-term improvement of corporate value, as well as to further advance global management.

(2) Remuneration for Directors consists of basic remuneration (fixed); bonuses, which are linked to consolidated operating results and achievement of individual targets (performance based); and stock compensation, which is linked to the achievement of medium- to long-term performance targets and year-on-year percentage change in income (performance based). Directors who serve concurrently as Executive Officers are eligible for bonuses and stock compensation, while other Directors and Outside Directors are eligible for basic remuneration only. Audit & Supervisory Board Members are also eligible for basic remuneration only.

(3) In accordance with the Company's policy on basic remuneration, the Remuneration Committee determines the composition of remuneration, that is, the weighting of basic and performance-based remuneration. In making this determination, the Company verifies the appropriateness of compensation levels, etc., by using total remuneration and composition thereof for each position in a management compensation database offered by an external research organization as benchmarks.

The proportion of each component of remuneration, assuming total remuneration is 100, is as follows: (Performance-based remuneration is the standard payment in the event targets are 100% achieved.)

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

(Excluding outside directors)

(4) Basic remuneration for Directors is determined based on level of responsibility, with consideration given to prevailing market rates. Bonuses are linked to increases/decreases in consolidated operating income, taking into account factors such as evaluation of Companywide or departmental performance and individual contribution, with consideration given to prevailing market rates. Individual remuneration is determined by the Remuneration Committee, which has been entrusted with this responsibility by the Board of Directors. Stock compensation, which is awarded as non-monetary remuneration to Directors who serve concurrently as Executive Officers, is determined based on degree of achievement of targets for consolidated operating income and net income attributable to owners of the parent set forth in the medium- or long-term management plan, as well as on year-on-year percentage change in both, and granted in the form of points each fiscal year. Upon retirement, these Directors receive shares of the Company or a cash equivalent to the market value of the Company's shares commensurate with the number of points accumulated.

(5) The Board of Directors has confirmed that the method used to determine remuneration and the remuneration thus determined are consistent with the policy decided by the Board of Directors and has judged that remuneration for each individual Director for the fiscal year ended December 31, 2022, is in accordance with the policy.

(6) Basic remuneration for Audit & Supervisory Board Members is determined through discussion involving all Audit & Supervisory Board Members, in accordance with internal rules established by the Audit & Supervisory Board, with consideration given to ensuring a balance with remuneration for Directors of the Company and to prevailing market rates.

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

<table>
<tr><th>Position</th><th colspan="2">Type of remuneration</th><th>Maximum remuneration</th><th>Date of resolution of the annual general meeting of shareholders</th></tr>
<tr><td rowspan="3">Director</td><td colspan="2">Basic remuneration (fixed)</td><td rowspan="2">¥700 million/year
(aggregate of basic remuneration and bonus)</td><td rowspan="2">June 27, 2007</td></tr>
<tr><td rowspan="2">Performance-based remuneration</td><td>Bonus</td></tr>
<tr><td>Stock compensation</td><td>¥250 million/year
(maximum contribution by the Company to the trust)
(maximum points granted: 46,000)</td><td>March 30, 2021</td></tr>
<tr><td>Audit & Supervisory Board Member</td><td colspan="2">Basic remuneration (fixed)</td><td>¥100 million/year</td><td>June 28, 2005</td></tr>
</table>

As of the submission date for the annual securities report for the Company's 125th fiscal year, there were 9 Directors (6 in-house and 3 outside) and 4 Audit & Supervisory Board Members (2 in-house and 2 outside) eligible for basic remuneration (fixed). 4 Directors serving concurrently as Executive Officers were eligible for bonuses and stock compensation, both of which are performance based.

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

<table>
<tr><th rowspan="3">Position</th><th rowspan="3">Total amount of remuneration (Millions of yen)</th><th colspan="3">Total amount of remuneration by type (Millions of yen)</th><th rowspan="3">Number of eligible individuals</th></tr>
<tr><th rowspan="2">Basic remuneration (fixed)</th><th colspan="2">Performance-based remuneration</th></tr>
<tr><th>Bonus</th><th>Stock compensation</th></tr>
<tr><td>Directors (excluding outside directors)</td><td>342</td><td>230</td><td>54</td><td>58</td><td>6</td></tr>
<tr><td>Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)</td><td>60</td><td>60</td><td>—</td><td>—</td><td>2</td></tr>
<tr><td>Outside directors</td><td>43</td><td>43</td><td>—</td><td>—</td><td>3</td></tr>
<tr><td>Outside Audit & Supervisory Board Members</td><td>29</td><td>29</td><td>—</td><td>—</td><td>2</td></tr>
</table>

(Note) The total for stock compensation is the total monetary value of shares corresponding to points granted for the fiscal year ended December 31, 2022, based on the performance-based stock compensation plan.

3. Remuneration for officers whose total compensation was 100 million yen or more

<table>
<tr><th rowspan="3">Name</th><th rowspan="3">Total amount of remuneration (Millions of yen)</th><th rowspan="3">Title</th><th rowspan="3">Company</th><th colspan="3">Total amount of remuneration by type (Millions of yen)</th></tr>
<tr><th rowspan="2">Basic remuneration (fixed)</th><th colspan="2">Performance-based remuneration</th></tr>
<tr><th>Bonus</th><th>Stock compensation</th></tr>
<tr><td>Kaoru Ino</td><td>113</td><td>Director</td><td>Reporting company</td><td>66</td><td>24</td><td>23</td></tr>
</table>

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

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

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

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

< Reference > Formula used to calculate the standard component of Directors’ bonuses

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

[Standard component of annual bonus (commensurate with position) (FY2022) = Position-specific basic bonus x (¥39,682 million / ¥56,500 million) x Coefficient proportionate to evaluation of individual performance]

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

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

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

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

Notes:

1. Number of points granted and number of eligible individuals by rank in the fiscal year ended December 31, 2022

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

Rank	Number of eligible individuals	Annual points	
		80%	100%
Representative Director, President and CEO	1	2,472	6,180
Representative Director and Executive Vice President	1	1,698	4,247
Director and Senior Managing Executive Officer	—	1,298	3,245
Director and Managing Executive Officer	2	1,022	2,555
Director and Executive Officer	—	718	1,795

“Number of eligible individuals” is the number of Directors who served currently as Executive Officers as of December 31, 2022. Calculations for each rank are as of the end of the previous fiscal year.

2. KPI for calculating number of annual points granted

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

KPI for calculating annual points granted	=	Degree of achievement of medium- to long-term targets *1	x	0.6	+	Percentage change in income from the previous fiscal year *2	x	0.4

*1 Degree of achievement of medium- to long-term target is calculated as follows:

Degree of achievement of medium- to long-term targets	=	Degree of achievement of medium- to long-term target for operating income	x	0.6	+	Degree of achievement of medium- to long-term target for net income attributable to owners of the parent	x	0.4

*2 Percentage change in income from the previous fiscal year is calculated as follows:

Percentage change in income from the previous fiscal year	=	Percentage change in operating income from the previous fiscal year	x	0.6	+	Percentage change in net income attributable to owners of the parent from the previous fiscal year	x	0.4

Reference: Targets for consolidated operating income and net income attributable to owners of the parent set forth in the DIC Vision 2030 long-term management plan.

(Millions of yen)

	FY 2021 Actual	FY 2022 Actual	FY 2022 Target
Operating income	42,893	39,682	54,000
Net income attributable to owners of the parent	4,365	17,610	28,000

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

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

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

Number of shares	=	(	Accumulated number of points as of the date of retirement	-	Points equivalent to fractional numbers of shares constituting less than one trading unit [1, 2]	)	x	70%

Notes:

1. Fewer than 100 points
2. The number of shares derived by subtracting “Points equivalent to fractional numbers of shares constituting less than one trading unit” from “Accumulated number of points as of the date of retirement” is hereinafter referred to as “shares bestowed."

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

Monetary payment	=	(	Number of shares bestowed	x	30%	+	Points equivalent to fractional numbers of shares constituting less than one trading unit [1]	)	x	Market price of the Company’s shares as of the date of retirement [2]

Notes:
1. Fewer than 100 points
2. “Market price of the Company’s shares as of the date of retirement” is the closing price or quoted price on the Tokyo Stock Exchange. If the closing price or quoted price is not announced on this date, the calculation will be made using the most recent date for which the closing price or quoted price can be obtained.

(3) In the event a Director retires for personal reasons
Only shares are bestowed. The calculation used is as follows:

Number of shares	=	Accumulated number of points as of the date of retirement

(4) In the event a Director is deemed to have retired as a result of their death
A monetary payment only is given to the family. The calculation used is as follows:

Monetary payment to family	=	Accumulated number of points as of the date of retirement	x	Market price of the Company’s shares as of the date of death [1]

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

(5) Other matters of note
- Directors eligible for performance-based stock compensation are those who serve concurrently as Executive Officers, as stipulated in Article 34, Paragraph 1, Item 3 of Japan’s Corporation Tax Act.
- The “indicators of profits of the business year” stipulated in Article 34, Paragraph 1, Item 3 (a) of Japan’s Corporation Tax Act are consolidated operating income and net income attributable to owners of the parent.
- The maximum number of shares equivalent to annual points commensurate with position prescribed in Article 34, Paragraph 1, Item 3 (a) (i) of Japan’s Corporation Tax Act is as follows:

Rank	Maximum number of shares
Representative Director, President and CEO	8,034
Representative Director and Executive Vice President	5,521
Director and Senior Managing Executive Officer	4,218
Director and Managing Executive Officer	3,321
Director and Executive Officer	2,333

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

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

・Members of the Remuneration Committee

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

・Authority delegated

Matters concerning the determination of remuneration for individual Directors

・Reasons for entrusting authority

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

Committee meeting data for the fiscal year ended December 31, 2022

March 2, 2022:	Determined bonuses for officers for the fiscal year ended December 31, 2021; determined stock compensation points for eligible directors for the fiscal year ended December 31, 2021
November 9, 2022:	Conducted triennial comparison of compensation for officers with prevailing market rates and reviewed amounts
December 22, 2022:	Deliberated and determined fixed remuneration for the fiscal year ending December 31, 2023; determined stock compensation points accumulated by retiring directors

(5) Securities held

1. Classification of investment securities

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

2. Investment securities held for purposes other than pure investment

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

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

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

At the Board of Directors' meeting held on March 4, 2022, the Company reviewed the suitability of all investment securities held for purposes other than pure investment as of December 31, 2021, as described above. As a result, it was confirmed that the significance of certain holdings was lacking. Accordingly, the Company will reduce relevant holdings going forward, giving consideration to impact on the market. Regarding holdings which were judged suitable, should circumstances change that call this judgment into question, the Company will also reconsider reduction or other measures.

(2) Number of stocks and amount on balance sheet

	Number of stocks	Amount on balance sheet (Millions of yen)
Unlisted stocks	49	1,450
Listed stocks	24	13,108

Stocks for which the number of shares held increased in current fiscal year ended December 31, 2022

	Number of stocks	Costs associated with the increase in number of shares (Millions of yen)	Reason for increase in number of shares
Unlisted stocks	1	269	Collaborative relationship was strengthened
Listed stocks	2	9	Shares were acquired through the employee shareholders' association of an affiliated company

Stocks for which the number of shares held decreased in current fiscal year ended December 31, 2022

	Number of stocks	Proceeds associated with the decrease in number of shares (Millions of yen)
Unlisted stocks	5	151
Listed stocks	2	168

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

Specified investment shares

Stock	FY2022 Number of shares / Amount on balance sheet (Millions of yen)	FY2021 Number of shares / Amount on balance sheet (Millions of yen)	Purpose of holding/quantitative effects of holding/reasons for increase in number of shares	Holds shares in the Company
Dai-ichi Life Holdings, Inc.	1,438,400	1,438,400	The Company has transactions in areas such as financing and insurance. The purpose of holding is to maintain/strengthen business relations.[2]	Yes
	4,307	3,345		
RENAISSANCE, INC.	3,742,000	3,742,000	Originally a DIC Group start-up. The Company currently has transactions in the area of color materials. The purpose of holding is to maintain/strengthen business relations.[3]	No
	3,289	4,172		
Mitsubishi UFJ Financial Group, Inc.	3,191,000	3,191,000	The Company has transactions in areas such as financing. The purpose of holding is to maintain/strengthen business relations.[2]	Yes
	2,837	1,994		
DAITO TRUST CONSTRUCTION CO., LTD.	50,000	50,000	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relations.[2]	No
	677	659		
Asahi Songwon Colors Ltd.	865,200	865,200	The Company has transactions in the area of color materials. The purpose of holding is to maintain/strengthen business relations.[2]	No
	362	396		
DAIWA HOUSE INDUSTRY CO., LTD.	100,000	100,000	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relations.[2]	No
	304	331		
KANSAI PAINT CO., LTD.	152,430	148,583	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations.[2]	Yes
	247	371		
RIKEN TECHNOS CORP.	504,000	504,000	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations.[2]	Yes
	242	262		
Green Earth Institute Co., Ltd.	417,000	417,000	The Company conducts joint research aimed at creating new businesses. The purpose of holding is to maintain/strengthen business relations.[2]	No
	183	771		
Nippon Electric Glass Co., Ltd.	74,600	74,600	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations.[2]	Yes
	175	220		
Dai Nippon Toryo Co., Ltd.	110,800	110,800	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations.[2]	Yes
	83	92		
OKAYA & CO., LTD.	8,400	8,400	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations.[2]	Yes
	82	81		
AksharChem (India) Ltd.	166,384	166,384	The Company has transactions in the area of color materials. The purpose of holding is to maintain/strengthen business relations.[2]	No
	71	118		

Stock	FY2022	FY2021	Purpose of holding/quantitative effects of holding/reasons for increase in number of shares	Holds shares in the Company
	Number of shares	Number of shares		
	Amount on balance sheet (Millions of yen)	Amount on balance sheet (Millions of yen)		
ROCK PAINT CO., LTD.	100,000	100,000	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations.[2]	Yes
	69	76		
TAYCA CORPORATION	50,000	50,000	The Company procures raw materials. The purpose of holding is to maintain/strengthen business relations.[2]	Yes
	59	65		
ATOMIX CO., LTD.	54,000	54,000	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations.[2]	Yes
	37	34		
KIKUSUI CHEMICAL INDUSTRIES CO., LTD.	55,000	55,000	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations.[2]	No
	20	20		
Isamu Paint Co., Ltd.	6,900	6,900	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations.[2]	Yes
	18	24		
Nihon Tokushu Toryo Co., Ltd.	20,000	20,000	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations.[2]	No
	17	17		
Origin Co., Ltd.	13,012	12,018	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations.[2]	No
	16	15		
KOMATSU MATERE Co., Ltd.	11,000	11,000	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations.[2]	No
	9	14		
Okura Industrial Co., Ltd.	1,600	1,600	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relations.[2]	No
	3	4		
ASAHIPEN CORPORATION	1,000	1,000	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations.[2]	No
	2	2		
TIGERS POLYMER CORPORATION	1,380	1,380	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations.[2]	Yes
	1	1		
Takara Standard Co., Ltd.	—	109,700	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relations. From the perspective of trade secrets and other factors, the quantitative effect of holding the shares is difficult to disclose. However, these holdings have been reviewed by examining whether benefits associated with possession commensurate with the cost of capital, and determining the risks of not holding the shares. All of the shares were sold in the fiscal year ended December 31, 2022.	No
	—	155		

Stock	FY2022	FY2021	Purpose of holding/quantitative effects of holding/reasons for increase in number of shares	Holds shares in the Company
	Number of shares	Number of shares		
	Amount on balance sheet (Millions of yen)	Amount on balance sheet (Millions of yen)		
NODA CORPORATION	—	53,800	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relations. From the perspective of trade secrets and other factors, the quantitative effect of holding the shares is difficult to disclose. However, these holdings have been reviewed by examining whether benefits associated with possession commensurate with the cost of capital, and determining the risks of not holding the shares. All of the shares were sold in the fiscal year ended December 31, 2022.	Yes
	—	49		

(Notes)

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

Deemed held securities

Stock	FY2022 Number of shares [1] / Amount on balance sheet [2] (Millions of yen)	FY2021 Number of shares [1] / Amount on balance sheet [2] (Millions of yen)	Purpose of holding/quantitative effects of holding/reasons for increase in number of shares	Holds shares in the Company
NIPPON PAINT HOLDINGS CO.,LTD.	6,493,890	6,493,890	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	No
	6,747	8,143		
TOPPAN INC.	3,101,765	3,101,765	The Company has transactions in the area of printing materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	Yes
	6,061	6,687		
Kyodo Printing Co., Ltd.	854,199	854,199	The Company has transactions in the area of printing materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	Yes
	2,347	2,447		
Mitsubishi UFJ Financial Group, Inc.	1,350,000	1,350,000	The Company procures funds, etc. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	Yes
	1,200	844		
Mizuho Financial Group, Inc.	477,700	477,700	The Company procures funds, etc. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	Yes
	887	699		
Nissha Co., Ltd.	475,259	905,259	The Company has transactions in the area of printing materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	Yes
	870	1,512		
FP CORPORATION	224,000	224,000	The Company has transactions in the area of packaging materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	No
	849	878		

Stock	FY2022 Number of shares [1] / Amount on balance sheet [2] (Millions of yen)	FY2021 Number of shares [1] / Amount on balance sheet [2] (Millions of yen)	Purpose of holding/quantitative effects of holding/reasons for increase in number of shares	Holds shares in the Company
Dai Nippon Printing Co., Ltd.	261,501	261,501	The Company has transactions in the area of printing materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	Yes
	693	757		
MITSUMURA PRINTING CO., LTD.	457,020	457,020	The Company has transactions in the area of printing materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	Yes
	533	631		
Kansai Paint Co., Ltd.	309,431	309,431	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations/ The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	Yes
	501	774		
Sumitomo Mitsui Financial Group, Inc.	61,680	61,680	The Company procures funds, etc. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	Yes
	327	243		
DAIWA HOUSE INDUSTRY CO., LTD.	80,000	80,000	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	No
	243	265		
SEIREN CO., LTD.	100,000	100,000	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	Yes
	243	252		
NAGASE & CO., LTD.	117,410	117,410	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	Yes
	235	219		

Stock	FY2022 Number of shares [1] / Amount on balance sheet [2] (Millions of yen)	FY2021 Number of shares [1] / Amount on balance sheet [2] (Millions of yen)	Purpose of holding/quantitative effects of holding/reasons for increase in number of shares	Holds shares in the Company
HOKKAN HOLDINGS LIMITED	158,520	158,520	The Company has transactions in the area of printing materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	Yes
	218	230		
Achilles Corporation	138,650	138,650	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	Yes
	172	173		
TOKYO PRINTING INK MFG. CO., LTD	33,000	33,000	The Company has transactions in the area of color materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	Yes
	97	77		
Nihon Tokushu Toryo Co., Ltd.	112,739	112,739	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	No
	97	98		
THE SHIGA BANK, LTD.	26,099	26,099	The Company procures funds, etc. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	Yes
	69	54		
TIGERS POLYMER CORPORATION	78,000	78,000	The Company has transactions in the area of performance materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	Yes
	31	36		

Stock	FY2022	FY2021	Purpose of holding/quantitative effects of holding/reasons for increase in number of shares	Holds shares in the Company
	Number of shares [1]	Number of shares [1]		
	Amount on balance sheet [2] (Millions of yen)	Amount on balance sheet [2] (Millions of yen)		
Nozaki Insatsu Shigyo Co, Ltd.	153,723	153,723	The Company has transactions in the area of printing materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	No
	18	18		
NIHON SEIKAN K.K.	4,620	4,620	The Company has transactions in the area of printing materials. The purpose of holding is to maintain/strengthen business relations. The Company currently contributes shares to the retirement benefit trust while reserving the right to give instructions on the exercise of voting rights.[5]	Yes
	5	5		
Takara Standard Co., Ltd.	—	74,600	The Company has transactions in the area of composite materials. The purpose of holding is to maintain/strengthen business relations. From the perspective of trade secrets and other factors, the quantitative effect of holding the shares is difficult to disclose. However, these holdings have been reviewed by examining whether benefits associated with possession are commensurate with the cost of capital, and what the risks of not holding the shares are. All of the shares were sold in the fiscal year ended December 31, 2022.	No
	—	105		

(Notes)

1. The number of shares is the number of shares with voting rights.
2. The amount on balance sheet for deemed shareholding is obtained by multiplying the market price of shares as of the last day of the fiscal year by the number of shares with voting rights.
3. When selecting the top stocks in terms of amount on balance sheet, these stocks are not considered "specified investment shares" and are not included in the calculation.
4. "—" indicates stocks that are not deemed held investment securities.
5. From the perspective of trade secrets and other factors, the quantitative effect of holding stocks is difficult to disclose. However, these holdings have been reviewed by examining whether benefits associated with possession are commensurate with the cost of capital, and what the risks of not holding the shares are, and their suitability has been verified.

V. Financial Information

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

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

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

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

2. About Audit Certification

Pursuant to the provisions of Article 193-2, Paragraph 1, of the Financial Instruments and Exchange Act, The Company arranged for Deloitte Touche Tohmatsu LLC to conduct independent audit of the consolidated financial statements for the fiscal year (January 1, 2022 to December 31, 2022) and non-consolidated financial statements for the fiscal year (January 1, 2022 to December 31, 2022).

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

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

1. Consolidated Financial Statements

(1) Consolidated Financial Statements

① Consolidated Balance Sheet

(Millions of yen)

	Previous Fiscal Year As of December 31, 2021	Current Fiscal Year As of December 31, 2022
Assets		
Current assets		
Cash and deposits	*4 38,253	*4 63,380
Notes and accounts receivable - trade	*1, *4 237,916	*1, *2, *4 247,520
Merchandise and finished goods	*4 132,773	*4 182,572
Work in process	*4 9,651	*4 11,656
Raw materials and supplies	*4 91,199	*4 116,522
Other	36,282	42,432
Allowance for doubtful accounts	(3,959)	(4,116)
Total current assets	542,114	659,967
Non-current assets		
Property, plant and equipment		
Buildings and structures	288,987	330,046
Accumulated depreciation	(185,949)	(201,304)
Buildings and structures, net	*4 103,039	*4 128,742
Machinery, equipment and vehicles	461,394	497,171
Accumulated depreciation	(351,875)	(378,061)
Machinery, equipment and vehicles, net	109,519	119,110
Tools, furniture and fixtures	74,041	80,714
Accumulated depreciation	(59,111)	(63,626)
Tools, furniture and fixtures, net	14,930	17,089
Land	*4 64,219	*4 66,353
Construction in progress	15,978	22,242
Total property, plant and equipment	307,684	353,536
Intangible assets		
Goodwill	20,182	33,641
Software	4,002	10,277
Customer-related assets	3,107	9,609
Other	25,022	25,238
Total intangible assets	52,313	78,764
Investments and other assets		
Investment securities	*3 59,289	*3 63,819
Deferred tax assets	17,320	16,419
Net defined benefit asset	69,715	64,383
Other	*3, *4 23,201	*3, *4 24,849
Allowance for doubtful accounts	(156)	(98)
Total investments and other assets	169,370	169,371
Total non-current assets	529,367	601,671
Total assets	1,071,481	1,261,637

(Millions of yen)

	Previous Fiscal Year As of December 31, 2021	Current Fiscal Year As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	145,816	154,964
Short-term loans payable	10,437	26,056
Commercial papers	—	30,000
Current portion of bonds payable	20,000	30,000
Current portion of long-term loans payable	*4 37,131	*4 35,928
Lease obligations	1,092	4,607
Income taxes payable	5,640	5,650
Provision for bonuses	6,125	5,555
Other	79,334	97,133
Total current liabilities	305,575	389,892
Non-current liabilities		
Bonds payable	140,000	110,000
Long-term loans payable	*4 171,443	*4 260,259
Lease obligations	4,112	12,479
Deferred tax liabilities	10,725	14,443
Net defined benefit liability	35,989	28,742
Asset retirement obligations	7,689	8,449
Other	14,940	16,286
Total non-current liabilities	384,897	450,657
Total liabilities	690,473	840,549
Net assets		
Shareholders' equity		
Capital stock	96,557	96,557
Capital surplus	94,468	94,234
Retained earnings	214,665	222,796
Treasury shares	(1,780)	(1,785)
Total shareholders' equity	403,910	411,802
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,449	5,360
Deferred gains or losses on hedges	92	694
Foreign currency translation adjustment	(55,456)	(17,286)
Remeasurements of defined benefit plans	(8,067)	(13,573)
Total accumulated other comprehensive income	(57,983)	(24,805)
Non-controlling interests	35,081	34,091
Total net assets	381,008	421,088
Total liabilities and net assets	1,071,481	1,261,637

② Consolidated Statement of Income and Consolidated Statement of Comprehensive income

Consolidated Statement of Income

(Millions of yen)

	Previous Fiscal Year Ended December 31, 2021	Current Fiscal Year Ended December 31, 2022
Net sales	855,379	1,054,201
Cost of sales	678,061	854,979
Gross profit	177,318	199,221
Selling, general and administrative expenses		
Freightage and packing expenses	15,870	16,701
Employees' salaries and allowances	48,950	61,005
Provision of allowance for doubtful accounts	287	769
Provision for bonuses	2,431	2,356
Retirement benefit expenses	(552)	(2,908)
Research and development costs	*1 13,503	*1 15,144
Other	53,935	66,472
Total selling, general and administrative expenses	134,425	159,539
Operating income	42,893	39,682
Non-operating income		
Interest income	1,223	1,968
Dividends income	401	465
Foreign exchange gains	250	750
Equity in earnings of affiliates	2,943	2,368
Other	2,017	2,223
Total non-operating income	6,835	7,774
Non-operating expenses		
Interest expenses	2,176	4,512
Other	3,794	2,998
Total non-operating expenses	5,970	7,510
Ordinary income	43,758	39,946
Extraordinary income		
Settlement income	—	1,077
Gain on sales of non-current assets	*2 482	*2 957
Gain on sales of investment securities	—	445
Insurance income	—	340
Gain on sales of shares and investments in capital of subsidiaries and affiliates	769	—
Total extraordinary income	1,251	2,819
Extraordinary losses		
Severance costs	*5 522	*5 3,514
Loss on disposal of non-current assets	*4 3,139	*4 2,407
Impairment losses	*3 1,563	*3 1,107
Loss on withdrawal from business	—	559
Acquisition-related expenses	6,911	—
Loss on disaster	463	—
Provision for environmental measures	300	—
Total extraordinary losses	12,897	7,586
Income before income taxes	32,112	35,179
Income taxes - current	13,609	12,449
Income taxes - deferred	12,041	4,081
Total income taxes	25,650	16,531
Net income	6,462	18,649
Net income attributable to non-controlling interests	2,097	1,039
Net income attributable to owners of the parent	4,365	17,610

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Previous Fiscal Year Ended December 31, 2021	Current Fiscal Year Ended December 31, 2022
Net income	6,462	18,649
Other comprehensive income		
Valuation difference on available-for-sale securities	2,549	(94)
Deferred gains or losses on hedges	(2,376)	598
Foreign currency translation adjustment	27,010	38,266
Remeasurements of defined benefit plans, net of tax	5,616	(5,545)
Share of other comprehensive income of associates accounted for using equity method	1,334	358
Total other comprehensive income	*1 34,134	*1 33,584
Comprehensive income	40,596	52,233
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	36,894	50,788
Comprehensive income attributable to non-controlling interests	3,702	1,445

③ Consolidated Statement of Changes in Net Assets

Previous Fiscal Year Ended December 31, 2021

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

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

Current Fiscal Year Ended December 31, 2022

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at January 1, 2022	96,557	94,468	214,665	(1,780)	403,910
Change in FY2022					
Dividends from surplus			(9,479)		(9,479)
Net income attributable to owners of the parent			17,610		17,610
Purchase of treasury shares				(6)	(6)
Change in ownership interest of parent due to transactions with non-controlling interests		(234)			(234)
Net changes of items other than Shareholders' equity					
Total change in FY2022	—	(234)	8,131	(6)	7,892
Balance at December 31, 2022	96,557	94,234	222,796	(1,785)	411,802

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at January 1, 2022	5,449	92	(55,456)	(8,067)	(57,983)	35,081	381,008
Change in FY2022							
Dividends from surplus							(9,479)
Net income attributable to owners of the parent							17,610
Purchase of treasury shares							(6)
Change in ownership interest of parent due to transactions with non-controlling interests							(234)
Net changes of items other than Shareholders' equity	(88)	602	38,170	(5,506)	33,178	(989)	32,188
Total change in FY2022	(88)	602	38,170	(5,506)	33,178	(989)	40,080
Balance at December 31, 2022	5,360	694	(17,286)	(13,573)	(24,805)	34,091	421,088

④ Consolidated Statement of Cash Flows

(Millions of yen)

	Previous Fiscal Year Ended December 31, 2021	Current Fiscal Year Ended December 31, 2022
Net cash provided by (used in) operating activities		
Income before income taxes	32,112	35,179
Depreciation and amortization	37,394	47,126
Amortization of goodwill	656	1,666
Increase (decrease) in allowance for doubtful accounts	(1,386)	(60)
Increase (decrease) in provision for bonuses	632	(660)
Interest and dividends income	(1,624)	(2,433)
Equity in (earnings) losses of affiliates	(2,943)	(2,368)
Interest expenses	2,176	4,512
Loss (gain) on sales and retirement of non-current assets	2,657	1,450
Impairment losses	1,563	1,107
Loss (gain) on sales of shares and investments in capital of subsidiaries and affiliates	(769)	―
Loss (gain) on sales of investment securities	―	(445)
Decrease (increase) in notes and accounts receivable - trade	(15,963)	4,318
Decrease (increase) in inventories	(34,348)	(55,521)
Increase (decrease) in notes and accounts payable - trade	34,261	(764)
Other, net	2,676	(9,641)
Subtotal	57,093	23,465
Interest and dividends income received	3,358	3,772
Interest expenses paid	(1,963)	(4,444)
Income taxes paid	(13,676)	(14,857)
Net cash provided by (used in) operating activities	44,812	7,935
Net cash provided by (used in) investing activities		
Payments into time deposits	(402)	(2,173)
Proceeds from withdrawal of time deposits	3,433	2,065
Purchase of property, plant and equipment	(35,935)	(40,817)
Proceeds from sales of property, plant and equipment	909	1,383
Purchase of intangible assets	(2,706)	(4,580)
Purchase of shares and investments in capital of subsidiaries resulting in changes in the scope of consolidation	*2(124,095)	*2(30,732)
Proceeds from sales of shares and investments in capital of subsidiaries and affiliates	11,618	2
Purchase of investment securities	(142)	(325)
Proceeds from sales and redemption of investment securities	1,589	749
Proceeds from sales of businesses	95	―
Payments for transfer of business	―	(16)
Other, net	(1,975)	1,285
Net cash provided by (used in) investing activities	(147,612)	(73,160)

(Millions of yen)

	Previous Fiscal Year Ended December 31, 2021	Current Fiscal Year Ended December 31, 2022
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(650)	13,715
Increase (decrease) in commercial papers	—	30,000
Proceeds from long-term loans payable	89,070	127,913
Repayment of long-term loans payable	(36,277)	(49,623)
Proceeds from issuance of bonds	60,000	—
Redemption of bonds	—	(20,000)
Cash dividends paid	(9,479)	(9,479)
Cash dividends paid to non-controlling interests	(1,475)	(681)
Net decrease (increase) in treasury shares	20	(6)
Purchase of shares and investments in capital of subsidiaries not resulting in change in scope of consolidation	—	(1,999)
Repayment of lease liabilities	(1,223)	(5,807)
Other, net	(438)	(85)
Net cash provided by (used in) financing activities	99,549	83,948
Effect of exchange rate change on cash and cash equivalents	(531)	6,265
Net increase (decrease) in cash and cash equivalents	(3,782)	24,989
Cash and cash equivalents at beginning of the period	41,354	37,572
Cash and cash equivalents at end of the period	*1 37,572	*1 62,560

[Notes]

(Basis of Preparation of Consolidated Financial Statements)

1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 169

The names of major consolidated subsidiaries are omitted because they are stated in "I. Overview of the Company 4. Subsidiaries and Affiliates."

Guangdong DIC TOD Resins Co., Ltd. and three other companies were included in the scope of consolidation due to acquisition of shares, etc.

Finape S.r.l. and two other companies were excluded from the scope of consolidation due to absorption-type-merger, etc.

(2) Names of major non-consolidated subsidiaries

Not applicable

2. Scope of the Equity Method

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

Principal company: TAIYO HOLDINGS CO. LTD.

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

Not applicable

3. Accounting Period of Consolidated Subsidiaries

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

4. Accounting Policies

(1) Methods and Standards for Valuation of Significant Assets

(a) Securities

Other securities

Securities with a readily determinable market value:

Stated at fair market value (with any unrealized gains or losses being reported directly as a component of shareholder's equity and the cost of any securities sold being computed by the moving-average method).

Securities with no readily determinable market value:

Stated at cost, with cost being determined 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 other property, plant and equipment is calculated by the declining-balance method. However, depreciation of facilities attached to buildings and structures acquired on or after April 1, 2016, is also calculated by the straight-line method.

Consolidated foreign subsidiaries:

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

The principal useful lives are as follows:

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

(b) Intangible assets (excluding leased assets)

Intangible assets are amortized by the straight-line method.

(c) Leased assets

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

(d) Right-of-use assets

Right-of-use assets are depreciated using the straight-line method with a useful life determined 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 and no residual value.

(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 and its consolidated subsidiaries apply 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 expensed in the accounting periods when they are incurred.

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 (5-20 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) Revenue and expense recognition standards

The Group conducts business activities in three segments, “Packaging & Graphic”, “Color & Display” and “Functional Products”, and mainly provide merchandise and products to domestic and overseas customers.

With regard to the sales of merchandise and products in these business fields, the Group recognizes revenue at the time of delivery of merchandise or products because it considers that the customer obtains control over the merchandise or products and performance obligations are satisfied at the time of delivery of the merchandise or products.

Revenue is recognized at the amount of consideration promised in the contract with the customer, less consideration such as returns, rebates and others, to the extent that there is a high probability of no material reversal of revenue. For buy-sell transactions that fall under the buy-back agreement, the amount of raw materials at the end of the fiscal period that are provided to transaction partners is continually recognized as inventory, and the amount of supplied materials at the end of fiscal period that remain at transaction partners is recognized as buy-back obligations at the same time.

Furthermore, transaction consideration is generally received within one year after performance obligations are satisfied and important financing components are not included.

(6) 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.

(7) Principal Methods of Hedge Accounting

(a) Method for Hedge Accounting

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

(b) Hedging instruments and hedged items

Hedging instrument

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

Hedged item

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

(c) Hedging policy

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

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

Commodity swaps are utilized to hedge fluctuations in fuel prices.

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

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

(d) Method of assessment of hedge effectiveness

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

(8) Amortization of Goodwill

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

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

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

(10) Significant Matters for Preparation of Consolidated Financial Statements

(a) 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.

(b) Application of tax effect accounting for transition from the consolidated taxation system to the group tax-sharing system

The Company and certain domestic consolidated subsidiaries will transfer from the consolidated taxation system to the group tax-sharing system from the fiscal year ending December 31, 2023. However, with regard to the items for which a review of the non-consolidated taxation system was made in accordance with the transition to the group tax-sharing system established under the “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 8 of 2020) and the transition to the group tax-sharing system, pursuant to the treatment of paragraph 3 of “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), the provisions of paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018) do not apply to the Company and certain domestic consolidated subsidiaries, and the amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the tax law before amendment.

From the beginning of the fiscal year ending December 31, 2023, the Company and certain domestic consolidated subsidiaries will apply the “Practical Solution on the Accounting and Disclosure Under the Group Tax-Sharing System” (PITF No. 42, August 12, 2021), which provides for accounting treatment and disclosure of corporate and local income taxes and tax effect accounting in the case of applying the group tax-sharing system.

(Accounting Estimates)

Previous fiscal year ended December 31, 2021

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 fiscal 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, 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 fiscal 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 carryforward.

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 fiscal 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.

Current fiscal year ended December 31, 2022

1. Purchase Price Allocation of the C&E Pigments Business (Formerly the Colors & Effects Business of Germany's BASF SE)

(1) Amount recorded in the consolidated financial statements for the fiscal year ended December 31, 2022

The details and amounts of the revision of the initial allocation of acquisition costs in accordance with the finalization of this preliminary accounting treatment are as follows:

Goodwill (before revision)	¥19,598 million
Adjusted amount of goodwill	
Current assets	2,362 million
Non-current assets	149 million
Current liabilities	(889 million)
Non-current liabilities	(1,679 million)
Total revised amount	(58 million)
Goodwill (after revision)	¥19,540 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, 2022

Revision of the allocation of acquisition costs of C&E pigments business in accordance with the finalization of this preliminary accounting treatment was completed in the current fiscal year.

In the process of the purchase price allocation, the fair value of property, plant and equipment, as well as intangible assets are calculated by the cost approach, the income approach such as the relief-from-royalty method, the 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, 2022

In estimating the fair value of the property, plant and equipment as of the acquisition date, the 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, the 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, 2023

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.

2. Purchase Price Allocation of Guangdong DIC TOD Resins Co., Ltd. ("Guangdong TOD")

(1) Amount recorded in the consolidated financial statements for the fiscal year ended December 31, 2022

Property, plant and equipment	¥3,981 million
Intangible assets	5,478 million
Goodwill	10,897 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, 2022

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	¥1,883 million
	Machinery, equipment and vehicles	¥1,328 million
	Land	¥672 million
Intangible assets	Customer-related assets	¥3,137 million
	Trademarks	¥1,752 million
	Technologies and related assets	¥570 million

In the process of the purchase price allocation, the fair value of property, plant and equipment, as well as intangible assets is calculated using the income approach such as the multiperiod excess earnings method or the relief-from-royalty method, the cost approach and the market approach 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, 2022

In estimating the fair value of property, plant and equipment as of the acquisition date, the market value, economic useful life and others are used as significant assumptions.

In estimating the fair value of intangible assets as of the acquisition date, the attrition rate to existing customers, 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, 2023

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.

3. Valuation of Goodwill

(1) Amount recorded in the consolidated financial statements for the fiscal year ended December 31, 2022

	As of December 31, 2021	As of December 31, 2022
Goodwill	¥20,182 million	¥33,641 million

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

(a) Goodwill related to C&E pigments business

The carrying amount of goodwill related to the C&E pigments business was ¥20,343 million at the end of the current fiscal year. The goodwill related to this business is tested for impairment every year, and the discounted present value of future cash flows, etc. must be estimated in order to calculate the fair value of the reporting unit, including the goodwill. The key assumptions in estimating the discounted present value of future cash flows, etc. are the business plan, revenue growth rate, discount rate and long-term growth rate.

These assumptions include management's judgment, and as such, a rapid worsening of economic or business conditions could have a significant impact on the consolidated financial statements in the following fiscal year.

(b) Goodwill related to Guangdong TOD

The carrying amount of goodwill recorded as a result of the acquisition of Guangdong TOD was ¥9,948 million at the end of the current fiscal year. The goodwill related to this business is tested for impairment every year, and the discounted present value of future cash flows, etc. must be estimated in order to calculate the recoverable amount of the group of cash generating units, including the goodwill. The key assumptions in estimating the discounted present value of future cash flows, etc. are the business plan, market growth rate, revenue growth rate and discount rate.

These assumptions include management’s judgment, and as such, a rapid worsening of economic or business conditions could have a significant impact on the consolidated financial statements in the following fiscal year.

4. Recoverability of deferred tax assets

(1) Amount recorded in the consolidated financial statements for the fiscal year ended December 31, 2022

Deferred tax assets	¥16,419 million

(The balance before offsetting deferred tax liabilities is ¥43,299 million.)

The amount of net operating loss carryforwards and future deductible temporary difference for which deferred tax assets have not been recognized is ¥45,752 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, 2022

In recognizing deferred tax assets, the Group considers the extent to which it is probable that future taxable income will be available against 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 ¥34,537 million, before offsetting against deferred tax liabilities. The amount occupies a large 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 ¥41,154 million.

(b) Significant assumptions used in calculating the amounts recognized in the consolidated financial statements for the year ended December 31, 2022

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 the business plan during the deductible period of deductible temporary differences and unused tax loss carry forwards.

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, 2023

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.

(Change in Accounting Policies)

(Application of “Accounting Standard for Revenue Recognition”)

The Company and its domestic consolidated subsidiaries adopted the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, issued on March 31, 2020) and others effective from the beginning of the fiscal year ended December 31, 2022, and recognizes revenue from goods or services which the Company and its domestic consolidated subsidiaries have promised to provide at an amount expected to be received when control over the goods or services is transferred to a customer. Previously, items supplied to a customer for a fee were reduced from merchandise and finished goods upon delivery. With the adoption of the Accounting Standard for Revenue Recognition, such items are no longer reduced from merchandise and finished goods if the Company and its domestic consolidated subsidiaries are obligated to repurchase the supplied items. Considerations such as rebates, which were previously accounted for in selling, general and administrative expenses, are now deducted from the transaction price. The application of the Accounting Standard for Revenue Recognition follows the transitional treatment stipulated in the proviso of Article 84 of the accounting standard. The cumulative effects of retroactively applying the new accounting standard to results prior to the beginning of the fiscal year ended December 31, 2022, was added to or subtracted from retained earnings at the beginning of the period, and the new accounting standard is applied from this initial balance. The impact of this change on consolidated net sales, operating income, ordinary income and net income in the fiscal year ended December 31, 2022, was negligible and the impact on retained earnings at the beginning of the period was nonexistent. Due to the impact on per share information being immaterial, related information is omitted.

In accordance with transitional procedures stipulated in Article 89-3 of the accounting standard regarding revenue recognition, a “revenue recognition” note pertaining to the previous fiscal year is not reported.

(Application of “Accounting Standard for Fair Value Measurement”)

The Company and its domestic consolidated subsidiaries adopted the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, issued on July 4, 2019) and others effective from the beginning of the fiscal year ended December 31, 2022, and have resolved to apply the new accounting policies set forth therein going forward in accordance with the transitional treatment stipulated in Paragraph 44-2 and Article 19 of the accounting standard. This had no impact on the consolidated financial statements.

In addition, notes including matters related to the breakdown of the financial instruments by level are made in notes of “Financial instruments”. In accordance with the transitional procedures stipulated in Article 7-4 of the “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, July 4, 2019), notes pertaining to the previous fiscal year are not reported among the relevant notes listed.

(Application of “ASC Topic 842”)

Overseas consolidated subsidiaries adopted “Accounting Standards Codification (ASC) Topic 842” (“Leases”) effective from the fiscal year ended December 31, 2022. As a result, all lease assets and liabilities associated with leases for which such a subsidiary is the lessee are, in principle, recorded in the balance sheets. In accordance with the transitional treatment stipulated in ASC Topic 842, the cumulative monetary effects of the application of this accounting standard were recognized as an adjustment to the consolidated balance of retained earnings at the beginning of the fiscal year ended December 31, 2022. There was no impact on the balance of retained earnings.

As a result of the adoption, as of December 31, 2022, consolidated total property, plant and equipment, a net figure, in non-current assets rose ¥11,685 million, lease obligations in current liabilities increased ¥3,506 million, and lease obligations in non-current liabilities advanced ¥8,456 million.

With the adoption of ASC Topic 842, assets previously recognized in “Other” in intangible assets were reclassified as right-of-use assets. As a result, as of December 31, 2022, consolidated total property, plant and equipment, a net figure, in non-current assets rose ¥5,952 million, while “Other” in intangible assets declined the same amount.

The impact on consolidated operating income, ordinary income and income before income taxes and non-controlling interests was negligible. Due to that the impact on per share information being immaterial, related information is omitted.

(Accounting Standards, etc. Not Yet Applied)

1. The Company and its domestic consolidated subsidiaries

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

(1) Overview

The accounting standards, etc. was released by the Accounting Standards Board of Japan for the purpose of clarifying the accounting treatment and disclosure of corporate and local income taxes and tax effect accounting in the case of applying the group tax-sharing system in light of the decision to shift from the consolidated taxation system to the group tax-sharing system under the "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 8 of 2020), which has been passed on March 27, 2020.

(2) Planned date of application

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

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

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

- "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021, Accounting Standards Board of Japan)

(1) Overview

The revision of "Implementation Guidance on Accounting Standard for Fair Value Measurement" (Accounting Standards Board of Japan, ASBJ Guidance No. 31) on June 17, 2021, which was supposed to take approximately one year to review after the publication of "Accounting Standard for Fair Value Measurement" on July 4, 2019, the publication date, because it is considered that a certain period of time is required for discussions with relevant parties, etc., regarding the calculation of the market value of investment trusts, and because the notes on the market value of investments in partnerships, etc., in which the equity equivalent is recorded on the balance sheet in net terms, require a certain amount of review, was revised and announced.

(2) Planned date of application

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

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

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

- "Accounting Standard for Current Income Taxes" (ASBJ Statement No. 27, October 28, 2022, Accounting Standards Board of Japan)
- "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, October 28, 2022, Accounting Standards Board of Japan)
- "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, October 28, 2022, Accounting Standards Board of Japan)

(1) Overview

In the course of deliberations on the transfer of the practical guidelines on tax effect accounting by the Japanese Institute of Certified Public Accountants to the Accounting Standards Board of Japan, the results of the deliberations on the following two issues that were decided to be reviewed after the publication of "Partial Amendments to Accounting Standard for Tax Effect Accounting", etc. (ASBJ Statement No. 28) in February 2018 were published.

(2) Planned date of application

It will be applied from the beginning of the fiscal year ending December 31, 2025.

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

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

2. Overseas consolidated subsidiaries

- Topic 326 “Credit Losses”

(1) Overview

The adoption of this accounting standards, etc. requires a review of the classification and measurement of financial instruments and recognition of impairment of financial assets under the expected credit loss model.

(2) Planned date of application

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

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

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

(Changes in Presentation)

(Consolidated Statement of Cash Flows)

Under “Net cash provided by (used in) financing activities,” "Repayments of lease liabilities," which was included in "Other, net" in the previous fiscal year ended December 31, 2021, is separately presented from the current fiscal year ended December 31, 2022, due to its increased financial materiality. In order to reflect this change in presentation, a reclassification has been made in the consolidated statement of cash flows for the previous fiscal year ended December 31, 2021.

As a result, ¥(1,660) million presented included in "Other, net" under “Net cash provided by (used in) financing activities in the previous fiscal year ended December 31, 2021, has been reclassified as ¥(1,223) million of "Repayments of lease liabilities" and ¥(438) million of "Other, net".

(Additional Information)

Board Benefit Trust (BBT)

With regard to the compensation for executive officers, as well as directors who concurrently serve as executive officers (the “Target Officers”), the Company introduced a new performance-based stock compensation plan called Board Benefit Trust (BBT) (the “Plan”) from the fiscal year ended December 31, 2017. The purpose of the Plan is to further clarify the linkage between the compensation of the Target Officers, and corporate performance and value of the Company’s shares. The intended result is strengthening the Executive Officers’ awareness of the importance of contributing to the medium- to long-term improvement of operating results, as well as to the enhancement of corporate value, and of sharing the same objectives as shareholders.
Accounting treatment related to the trust agreement is in accordance with “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” (PITF No. 30, March 26, 2015).

(1) Outline of the transactions

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

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

The shares remaining in the trust are recorded under net assets as treasury shares at the book value in the trust (excluding incidental costs). The book value and number of such treasury shares are ¥520 million and 132 thousand as of December 31, 2021, respectively, and ¥520 million and 132 thousand as of December 31, 2022, 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 2023 and has assumed that an impact on the estimates would not be significant as of December 31, 2022.
However, due to uncertainties in the application of such assumption to the estimates above, unexpected changes in the recovery time for COVID-19 or its impact on the economic environment may affect the financial position, operating results, and cash flows of the Company in the future.

(Consolidated Balance Sheet)

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

Previous fiscal year as of December 31, 2021	Current fiscal year as of December 31, 2022
¥9,208 million	¥11,274 million

*2. Of the Notes and accounts receivable - trade, the portions pertaining to receivables from contracts with customers are as follows:

	Current fiscal year as of December 31, 2022
Notes	¥30,756 million
Accounts receivable - trade	216,764

*3. Affiliates' securities

	Previous fiscal year as of December 31, 2021	Current fiscal year as of December 31, 2022
Common stock	¥40,675 million	¥45,318 million
Investments in capital	821	877

*4. Assets pledged for collateral and secured liabilities

The following assets are pledged as collateral:

	Previous fiscal year as of December 31, 2021	Current fiscal year as of December 31, 2022
Cash and deposits	¥16 million	¥37 million
Notes and accounts receivable-trade	3,572	4,003
Inventory	2,337	1,824
Buildings and structures	1,009	1,004
Land	2,488	2,584
Other non-current assets	2	532
Total	9,424	9,985

The obligations collateralized by the above assets are as follows:

	Previous fiscal year as of December 31, 2021	Current fiscal year as of December 31, 2022
Current portion of long-term loans payable	¥83 million	¥86 million
Long-term loans payable	621	559
Total	704	645

5. Guarantees obligations for debt of others implemented for affiliated companies and others are as follows:

Previous fiscal year as of December 31, 2021

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

Current fiscal year as of December 31, 2022

Guarantee Name	Amounts (Millions of yen)	Details
CAST FILM JAPAN Co., LTD.	675	Guarantee obligations associated with borrowings from financial institutions
Employees (Housing funds)	14	Guarantee obligations associated with borrowings from financial institutions
Total	689	

6. Notes receivable-trade discounted

	Previous fiscal year as of December 31, 2021	Current fiscal year as of December 31, 2022
Notes receivable-trade discounted	¥15 million	－ million

(Consolidated Statement of Income)

*1 Total research and development costs

Previous fiscal year ended December 31, 2021	Current fiscal year ended December 31, 2022
¥13,503 million	¥15,144 million

*2 Gain on sales of non-current assets

Previous fiscal year ended December 31, 2021

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

Current fiscal year ended December 31, 2022

This gain is mainly composed of ¥842 million of gain on sale of land, building and others.

*3 Impairment loss

Previous fiscal year ended December 31, 2021

The Group recorded impairment loss in the following asset groups:

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

(Reasons for recognition of impairment loss)

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

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

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

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

(Method of grouping assets)

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

(Method for measuring recoverable amounts)

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

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

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

Current fiscal year ended December 31, 2022

The Group recorded impairment loss in the following asset groups:

Use	Type of assets	Location	Amount (Millions of yen)
Plant assets	Buildings and structures, machinery, equipment and vehicles, and others	Ina-machi, Kitaadachi-gun, Saitama	510
Plant assets	Land, buildings and structures, machinery, equipment and vehicles, and others	Singapore	456
Idle assets	Machinery, equipment and vehicles	PRC	141
Total			1,107

(Reasons for recognition of impairment loss)

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

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

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

Type of assets	Amount (Millions of yen)
Land	192
Buildings and structures	529
Machinery, equipment and vehicles	379
Other	7
Total	1,107

(Method of grouping assets)

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

(Method of measuring recoverable amounts)

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

*4 Loss on disposal of non-current assets

Previous fiscal year ended December 31, 2021

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

Current fiscal year ended December 31, 2022

This loss is composed of ¥765 million of buildings, ¥445 million of machinery and equipment, ¥603 million of removal cost and others.

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

(Consolidated Statement of Comprehensive Income)

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

	Previous fiscal year ended December 31, 2021	Current fiscal year ended December 31, 2022
Valuation difference on available-for-sale securities:		
Amount arising during the fiscal year	¥3,680 million	¥(69)million
Reclassification adjustments	(59)	(36)
Before tax effects	3,621	(105)
Tax effects	(1,072)	11
Valuation difference on available-for-sale securities	2,549	(94)
Deferred gains or losses on hedges:		
Amount arising during the fiscal year	2,885	1,020
Reclassification adjustments	(6,316)	(99)
Before tax effects	(3,431)	922
Tax effects	1,055	(324)
Deferred gains or losses on hedges	(2,376)	598
Foreign currency translation adjustment:		
Amount arising during the fiscal year	26,932	38,266
Reclassification adjustments	78	—
Foreign currency translation adjustment	27,010	38,266
Remeasurements of defined benefit plans, net of tax:		
Amount arising during the fiscal year	4,427	(8,334)
Reclassification adjustments	1,860	(1,532)
Before tax effects	6,287	(9,867)
Tax effects	(671)	4,322
Remeasurements of defined benefit plans, net of tax	5,616	(5,545)
Share of other comprehensive income of associates accounted for using equity method:		
Amount arising during the fiscal year	828	360
Reclassification adjustments	506	(2)
Share of other comprehensive income of associates accounted for using equity method	1,334	358
Total other comprehensive income	34,134	33,584

(Consolidated Statement of Changes in Net Assets)

Previous fiscal year ended December 31, 2021

1. Type and number of issued shares and treasury shares

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

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

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

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

2. Dividends

(1) Dividends paid

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

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

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

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

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

(Note) "Total dividends to be paid" resolved by the Ordinary General Meeting of Shareholders on March 30, 2022 includes dividends of ¥7 million for the Company shares held by the Board Benefit Trust (BBT).

Current fiscal year ended December 31, 2022

1. Type and number of issued shares and treasury shares

	Number of shares at the beginning of the year (Share)	Increase in shares during the year (Share)	Decrease in shares during the year (Share)	Number of shares at the end of the year (Share)
Issued shares				
Common stock	95,156,904	－	－	95,156,904
Total	95,156,904	－	－	95,156,904
Treasury shares				
Common stock (Notes 1 and 2)	501,950	2,173	－	504,123
Total	501,950	2,173	－	504,123

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

2. 2,173 increase in treasury shares of common stock resulted from the purchase of fractional shares.

2. Dividends

(1) Dividends paid

Resolution	Type of shares	Total dividends to be paid (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on March 29, 2022	Common stock	4,739	50	December 31, 2021	March 30, 2022
Board of Directors on August 10, 2022	Common stock	4,739	50	June 30, 2022	September 1, 2022

(Notes) 1. “Total dividends to be paid” resolved by the Ordinary General Meeting of Shareholders on March 29, 2022, includes dividends of ¥7 million yen for the Company shares held by the Board Benefit Trust (BBT).

2. “Total dividends to be paid” resolved by the Board of Directors on August 10, 2022 includes dividends of ¥7 million for the Company shares held by the Board Benefit Trust (BBT).

(2) Dividends for which the record date came during the fiscal year ended December 31, 2022, but for which the effective date will come after said period

Resolution	Type of shares	Source of dividends	Total dividends to be paid (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders on March 29, 2023	Common stock	Retained earnings	4,739	50	December 31, 2022	March 30, 2023

(Note) “Total dividends to be paid” resolved by the Ordinary General Meeting of Shareholders on March 29, 2023 includes dividends of ¥7 million for the Company shares held by the Board Benefit Trust (BBT).

(Consolidated Statement of Cash Flows)

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

	Previous fiscal year ended December 31, 2021	Current fiscal year ended December 31, 2022
Cash and deposits	¥38,253 million	¥63,380 million
Time deposits with maturities of over three months	(681)	(820)
Cash and cash equivalents	37,572	62,560

*2 Principal components of assets and liabilities of newly consolidated companies as a result of the acquisition of shares and assets

Fiscal year ended December 31, 2021

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

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

Fiscal year ended December 31, 2022

As a result of the acquisition of shares, Sapici S.p.A was newly consolidated in the fiscal year ended December 31, 2022. The main components of assets acquired and liabilities assumed at the start of consolidation are as follows. Besides, due to the obligation of confidentiality, the price of the acquisition is undisclosed.

Current assets	¥8,287 million
Non-current assets	9,968
Total Assets	18,255
Current liabilities	3,123
Non-current liabilities	2,542
Total Liabilities	5,665

As a result of the acquisition of shares, Guangdong DIC TOD Resins Co., Ltd. was newly consolidated in the fiscal year ended December 31, 2022. The main components of assets acquired and liabilities assumed at the start of consolidation are as follows. Besides, due to the obligation of confidentiality, the price of the acquisition is undisclosed.

Current assets	¥5,131 million
Non-current assets	9,585
Total Assets	14,715
Current liabilities	2,637
Non-current liabilities	1,892
Total Liabilities	4,529

(Lease Transactions)

1. Operating lease transactions

(1) As lessee

Future lease payments related to non-cancelable operating lease transactions

(Millions of yen)

	Previous fiscal year ended December 31, 2021	Current fiscal year ended December 31, 2022
Within a year	3,696	42
More than one year	9,332	70
Total	13,028	112

Note: At a part of foreign consolidated subsidiaries, Topic 842 has been adopted from the beginning of the fiscal year ended December 31, 2022. The operating lease of these consolidated subsidiaries are not included in amount of current fiscal year end December 31, 2022 of the above table.

(2) As lessor

Future lease payments related to non-cancelable operating lease transactions

(Millions of yen)

	Previous fiscal year ended December 31, 2021	Current fiscal year ended December 31, 2022
Within a year	120	131
More than one year	873	791
Total	993	922

(Financial Instruments)

1. Matters concerning the status of financial instruments

(1) Policy on financial instruments

The Group invests its funds in highly safe financial assets.

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

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

The Group uses hedge accounting for derivative transactions that meet their criteria.

(2) Details and risks of financial instruments

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

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

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

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

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

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

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

(3) Risk Management System for Financial Instruments

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

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

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

The Group enters into derivative contracts with highly creditworthy financial institutions, and therefore recognize that there is little risk of default.

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

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

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

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

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

Although operating liabilities and borrowings are exposed to liquidity risk, The Group has minimized the risk by establishing loan facilities in addition to managing the cash flow of each company.

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

① Since variable factors are included in the calculation of the fair value of financial instruments, the value may change if different assumptions are adopted.

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

2. Fair value of financial instruments

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

Previous fiscal year as of December 31, 2021

	Consolidated balance sheet amount (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
(1) Investment securities (* 2)			
Stocks of affiliates	23,387	39,096	15,709
Available-for-sale securities	15,502	15,502	—
Assets total	38,889	54,598	15,709
(1) Current portion of bonds payable	20,000	20,006	6
(2) Current portion of long-term loans payable	37,131	37,120	(11)
(3) Bonds payable	140,000	140,204	204
(4) Long-term loans payable	171,443	171,614	171
(5) Lease obligations (non-current liabilities)	4,112	4,291	179
Liabilities total	372,686	373,235	549
Derivative financial instruments (* 3)			
① Hedge accounting - not applied	(49)	(49)	—
② Hedge accounting - applied	19	19	—
Derivative financial instruments total	(30)	(30)	—

(* 1) Cash and deposits, notes and accounts receivable - trade, notes and accounts payable - trade, short-term loans payable, commercial papers, income taxes payable and lease obligations (current) are cash and are settled in a short period of time, as a result of which their fair values approximate their book values. Accordingly, they are omitted.

(* 2) Unlisted stocks are not included in “Investment securities” because they do not have market prices, and their fair values are deemed extremely difficult to measure. The consolidated balance sheet amount of these financial instruments is as follows:

	As of December 31, 2021 (Millions of yen)
Unlisted stocks	20,400

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

Current fiscal year as of December 31, 2022

	Consolidated balance sheet amount (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
(1) Investment securities (* 2)			
Stocks of affiliates	24,362	25,132	770
Available-for-sale securities	15,540	15,540	—
Assets total	39,902	40,672	770
(1) Current portion of bonds payable	30,000	29,983	(17)
(2) Current portion of long-term loans payable	35,928	35,926	(2)
(3) Bonds payable	110,000	107,363	(2,637)
(4) Long-term loans payable	260,259	258,403	(1,856)
(5) Lease obligations (non-current liabilities)	12,479	12,536	57
Liabilities total	448,666	444,211	(4,455)
Derivative financial instruments (* 3)			
① Hedge accounting - not applied	(7,145)	(7,145)	—
② Hedge accounting - applied	1,413	1,413	—
Derivative financial instruments total	(5,732)	(5,732)	—

(* 1) Cash and deposits, notes and accounts receivable - trade, notes and accounts payable - trade, short-term loans payable, commercial papers, income taxes payable and lease obligations (current) are cash and are settled in a short period of time, as a result of which their fair values approximate their book values. Accordingly, they are omitted.

(* 2) Financial instruments that do not have market prices are not included in "Investment securities." The consolidated balance sheet amount of these financial instruments is as follows:

	As of December 31, 2022 (Millions of yen)
Unlisted stocks	23,917

(* 3) Net receivables and payables arising from derivative transactions are presented as net amounts and any item for which the total becomes a net obligation is indicated in parentheses.

(Notes) 1. Redemption schedule of monetary claims and securities with maturity after the consolidated closing date

Previous fiscal year as of December 31, 2021

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

Current fiscal year as of December 31, 2022

	Within 1 year (Millions of yen)	Over 1 year to 5 years (Millions of yen)	Over 5 years to 10 years (Millions of yen)	Over 10 years (Millions of yen)
Notes and accounts receivable - trade	247,520	—	—	—
Total	247,520	—	—	—

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

Previous fiscal year as of December 31, 2021

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

Current fiscal year as of December 31, 2022

	Within 1 year (Millions of yen)	Over 1 year to 5 years (Millions of yen)	Over 5 years to 10 years (Millions of yen)	Over 10 years (Millions of yen)
Short-term loans payable	26,056	—	—	—
Commercial papers	30,000	—	—	—
Current portion of bonds payable	30,000	—	—	—
Current portion of long-term loans payable	35,928	—	—	—
Lease obligations (current liabilities)	4,607	—	—	—
Bonds payable	—	65,000	40,000	5,000
Long-term loans payable	—	190,043	70,216	—
Lease obligations (non-current liabilities)	—	9,519	2,449	511
Total	126,591	264,562	112,665	5,511

3. Details of the level of financial instruments by fair value

The fair values of financial instruments are classified using a three-level hierarchy based on the observability and significance of valuation inputs to measure fair value.

Level 1: Fair value is measured using quoted prices for identical assets or liabilities in active markets

Level 2: Fair value is measured using inputs that are observable either directly or indirectly other than those included in Level 1.

Level 3: Fair value is measured using significant unobservable inputs.

If multiple valuation inputs with significant impact are used to measure the fair value measurement of a financial instrument, the instrument is classified based on the lowest level of the fair value hierarchy to which each input belongs.

(1) Financial instruments carried at fair value on the balance sheet

Current fiscal year as of December 31, 2022

Category	Market value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment Securities				
Available-for-sale securities				
Stocks	15,540	—	—	15,540
Assets total	15,540	—	—	15,540
Derivative financial instruments				
① Hedge accounting - not applied	—	(7,145)	—	(7,145)
② Hedge accounting - applied	—	1,413	—	1,413
Derivative financial instruments total	—	(5,732)	—	(5,732)

(2) Financial instruments other than those carried at fair value on the balance sheet

Current fiscal year as of December 31, 2022

Category	Market value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment Securities				
Stocks of affiliates	25,132	—	—	25,132
Assets total	25,132	—	—	25,132
Current portion of bonds payable	—	29,983	—	29,983
Current portion of long-term loans payable	—	35,926	—	35,926
Bonds payable	—	107,363	—	107,363
Long-term loans payable	—	258,403	—	258,403
Lease obligations (non-current)	—	12,536	—	12,536
Liabilities total	—	444,211	—	444,211

Note: Explanation of the valuation methodology and inputs used to measure fair value

Investment securities

The fair values of listed stocks are measured using quoted market prices for identical securities. Since listed stocks are traded in active markets, their fair values are classified as Level 1.

Derivative transactions

The fair values of foreign currency forward transactions are measured using forward exchange rates and are classified as Level 2. Foreign currency forward contracts subject to appropriation treatment are considered an integral part of the hedged foreign currency-denominated receivables and their fair values are included in the fair value of those receivables. Since these receivables are mostly settled in a short period of time, as a result of which their fair values approximate their book values, they are omitted.

The fair values of currency options and interest rate swap transactions are measured based on the price offered by the trading

financial institution and are classified as Level 2. Interest rate swaps subject to special treatment are considered an integral part of the relevant hedged loans and their fair values are included in the fair value of those loans.
The fair values of commodity swap transactions are measured using exchange prices and are classified as Level 2.

Bonds payable (including current portion)
The fair values of bonds payable issued by the Company are measured using quoted prices. Since these bonds are not traded in active markets, their fair values are classified as Level 2.

Lease obligations (non-current)
The fair values of lease obligations are measured by discounting the present value, that is, the total amount of principal and interest, using the interest rate that would be expected to apply if similar leases were newly undertaken, and are classified as Level 2.

Long-term loans payable (including current portion)
Long-term loans payable with variable interest rates subject to special treatment for interest rate swaps are measured by discounting the total amount of principal and interest, considered an integral part of the interest rate swap, using the presumed interest rate that would be expected to apply if similar loans were newly undertaken, and are classified as Level 2.
Since other long-term loans payable with variable interest rates are deemed to reflect market interest rates within a short term, and because the Company’s credit rating has not changed significantly since the execution, their fair values approximate their book values and are classified as Level 2.
The fair values of long-term loans payable with fixed interest rates are measured by discounting the present value, that is, the total amount of principal and interest, using the interest rate that would be expected to apply if similar loans were newly undertaken, and are classified as Level 2.

(Securities)

Previous fiscal year as of December 31, 2021

1. Other securities

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

Current fiscal year as of December 31, 2022

1. Other securities

	Type of securities	Consolidated carrying value (Millions of yen)	Acquisition price (Millions of yen)	Valuation difference (Millions of yen)
Securities where consolidated carrying value exceeds their acquisition price	Stocks	14,676	6,634	8,042
	Subtotal	14,676	6,634	8,042
Securities where consolidated carrying value does not exceed their acquisition price	Stocks	864	1,059	(195)
	Subtotal	864	1,059	(195)
Total		15,540	7,693	7,847

(Derivatives Transactions)

1. Derivative transactions to which hedge accounting is not applied

(1) Currency related

Previous fiscal year as of December 31, 2021

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

(Note) Calculation method of fair value

Forward exchange rates are used for forward exchange contracts.

Current fiscal year as of December 31, 2022

Classification	Type of transaction	Contract/Notional amount (Millions of yen)	Contract/Notional amount due over 1 year (Millions of yen)	Fair value (Millions of yen)	Net unrealized gains (losses) (Millions of yen)
Off-market transactions	Currency options				
	Sell				
	Euro	80,930	—	(4,404)	(4,404)
	Swiss franc	17,279	—	(1,527)	(1,527)
	British pound	20,839	—	(1,141)	(1,141)
	Forward exchange contracts				
	Sell				
	Columbia peso	1,671	—	(12)	(12)
	Canadian dollar	1,897	—	(14)	(14)
	Buy				
	U.S. dollar	2,407	—	(41)	(41)
	Other	322	—	(6)	(6)
Total		125,345	—	(7,145)	(7,145)

2. Derivative transactions to which hedge accounting is applied

(1) Currency related

Previous fiscal year as of December 31, 2021

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

(Notes) Calculation method of fair value

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

Current fiscal year as of December 31, 2022

Method of hedge accounting	Type of transaction	Hedged items	Contract/Notional amount (Millions of yen)	Contract/Notional amount due over 1 year (Millions of yen)	Fair value (Millions of yen)
Principle treatment	Forward exchange contracts				
	Sell				
	Euro	Net investments in foreign entities	27,099	13,061	(266)
	U.S. dollar		20,176	—	622
	Buy				
	U.S. dollar	Accounts payable	165	—	(9)
Appropriation treatment	Forward exchange contracts				
	Sell				
	U.S. dollar	Accounts receivable	912	—	(Note)
	Other		404	—	(Note)
	Buy				
	Chinese yuan	Accounts payable	39	—	(Note)
Total			48,795	13,061	347

(Note) Forward exchange contracts adopted appropriation are accounted for as part of the hedged accounts receivable and accounts payable, and their fair values are included in the fair values of the accounts receivable and accounts payable.

(2) Interest Rate Related

Previous fiscal year as of December 31, 2021

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

(Notes) Calculation method of fair value

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

Current fiscal year as of December 31, 2022

Method of hedge accounting	Type of transaction	Hedged items	Contract/Notional amount (Millions of yen)	Contract/Notional amount (Millions of yen)	Fair value (Millions of yen)
Principle treatment	Interest rate swap transaction Floating-rate receipts • Fixed-rate payments	Loans payable	63,316	60,000	1,208
Special treatment of interest rate swaps	Interest rate swap transaction Floating-rate receipts • Fixed-rate payments	Loans payable	50,000	50,000	(Note)
Total			113,316	110,000	1,208

(Note) The special treatment of interest rate swaps is accounted for together with the hedged loans payable, and their fair values are included in the fair values of the loans payable.

(3) Commodity related

Previous fiscal year as of December 31, 2021

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

(Note) Calculation method of fair value

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

Current fiscal year as of December 31, 2022

Method of hedge accounting	Type of transaction	Hedged items	Contract/Notional amount (Millions of yen)	Contract/Notional amount due over 1 year (Millions of yen)	Fair value (Millions of yen)
Principle treatment	Commodity swap transaction Floating-price receipts • Fixed-price payments	Fuel	704	―	(142)
Total			704	―	(142)

(Retirement and Pension Plans)

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

1. Overview of adopted retirement and pension plans

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

2. Defined benefit pension plans (including multiemployer plans)

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

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

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

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

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

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

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

(4) Retirement benefit expenses and its breakdowns

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

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

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

(5) Adjustments related to defined benefit plans

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

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

(6) Cumulative adjustments related to defined benefit plans

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

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

(7) Items related to plan assets

Major components of plan assets

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

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

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

Method of setting the long-term expected return rate

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

(8) Basic items for actuarial calculation

Basic items for actuarial calculation are as follows:

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

3. Defined contribution pension plans

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

Fiscal year 2022 (January 1, 2022 - December 31, 2022)

1. Overview of adopted retirement and pension plans

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

2. Defined benefit pension plans (including multiemployer plans)

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

	Domestic plans * (Millions of yen)	Foreign plans (Millions of yen)
Defined benefit obligations at beginning of year	88,671	199,464
Service cost	2,134	2,199
Interest cost	700	3,771
Actuarial gains and losses	37	(56,302)
Benefits paid	(4,973)	(8,488)
Past service cost incurred	—	68
Exchange translation differences	—	16,158
Other	—	(1,300)
Retirement benefit obligations at end of year	86,570	155,570

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

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

	Domestic plans (Millions of yen)	Foreign plans (Millions of yen)
Plan assets at beginning of year	143,597	178,264
Expected return on plan assets	3,544	7,759
Actuarial gains and losses	(3,959)	(56,792)
Contributions by the employer	933	3,020
Benefits paid	(4,819)	(7,702)
Exchange translation differences	—	13,713
Other	—	223
Plan assets at end of year	139,296	138,485

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

	Domestic plans (Millions of yen)	Foreign plans (Millions of yen)
Funded defined benefit obligations	85,457	153,786
Plan assets	(139,296)	(138,485)
	(53,839)	15,301
Unfunded defined benefit obligations	1,113	1,784
Net amount of liabilities and assets recognized in consolidated balance sheet	(52,726)	17,085
Liabilities (net defined benefit liability)	1,114	27,628
Assets (net defined benefit asset)	(53,840)	(10,543)
Net amount of liabilities and assets recognized in consolidated balance sheet	(52,726)	17,085

(4) Retirement benefit expenses and its breakdowns

	Domestic plans (Millions of yen)	Foreign plans (Millions of yen)
Service cost	2,134	2,199
Interest cost	700	3,771
Expected return on plan assets	(3,544)	(7,759)
Recognition of actuarial gains and losses	(2,816)	1,216
Amortization of past service cost	—	68
Retirement benefit expenses concerning defined benefit plans	(3,526)	(505)

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

2. Other than these retirement benefit expenses, ¥295 million of losses on retiree premium benefit have been recognized in Loss on withdrawal from business in the consolidated statement of income.

(5) Adjustments related to defined benefit plans

The past service cost and actuarial gains and losses recognized in accumulated other comprehensive income as remeasurements of defined benefit plans (amount before income tax effect) for the fiscal year ended December 31, 2022, are as follows:

	Domestic plans (Millions of yen)	Foreign plans (Millions of yen)
Past service cost	—	17
Actuarial gains and losses	(6,813)	(3,071)
Total	(6,813)	(3,054)

(6) Cumulative adjustments related to defined benefit plans

The unrecognized past service cost and unrecognized actuarial gains and losses recognized in accumulated other comprehensive income as remeasurements of defined benefit plans (amount before income tax effect) for the fiscal year ended December 31, 2022, are as follows:

	Domestic plans (Millions of yen)	Foreign plans (Millions of yen)
Unrecognized past service cost	—	414
Unrecognized actuarial gains and losses	14,848	(39,941)
Total	14,848	(39,527)

(7) Items related to plan assets

Major components of plan assets

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

	Domestic plans	Foreign plans
Equity securities	47.0%	25.3%
Debt securities	23.5%	55.0%
Other	29.5%	19.7%
Total	100.0%	100.0%

(Note) 25.6% of the assets of the domestic plans are available-for-sale securities contributed to the employee retirement benefit trust.

Method of setting the long-term expected return rate

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

(8) Basic items for actuarial calculation

Basic items for actuarial calculation are as follows:

	Domestic plans	Foreign plans
Discount rate	0.8%	2.2%-5.2%
Expected return rate on plan assets	3.0%	2.0%-7.0%
Expected rate of increase in salary	3.1%	0.0%-2.3%

3. Defined contribution pension plans

The required contributions borne by the Company and consolidated subsidiaries in relation to the defined contribution pension plans are ¥2,761 million.

(Stock Options, etc.)

Not applicable.

(Tax Effect Accounting)

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

	Previous fiscal year as of December 31, 2021	Current fiscal year as of December 31, 2022
Deferred tax assets		
Inventories	¥5,046 million	¥5,810 million
Property, plant and equipment	5,721	6,261
Intangible assets	5,677	5,737
Research and development costs	3,184	3,855
Allowance for doubtful accounts	1,409	1,726
Provision for bonuses	1,857	1,688
Net defined benefit liability	7,007	4,829
Unrealized gain	908	921
Net operating loss carryforwards (Note 2)	36,858	43,421
Other	14,319	14,924
Deferred tax assets Subtotal	81,986	89,173
Less: valuation allowance for tax loss carryforwards (Note 2)	(30,407)	(36,303)
Less: valuation allowance for temporary differences	(9,411)	(9,561)
Valuation allowance (Note 1)	(39,818)	(45,864)
Deferred tax assets Total	42,168	43,309
Deferred tax liabilities		
Property, plant and equipment	(14,034)	(16,596)
Intangible assets	(1,894)	(2,877)
Net defined benefit asset	(7,299)	(7,427)
Contribution of securities to employee retirement benefit trust	(1,228)	(1,160)
Deferred income taxes related to gains from property, plant and equipment	(2,441)	(2,323)
Valuation difference on available-for-sale securities	(2,415)	(2,404)
Other	(6,262)	(8,547)
Deferred tax liabilities Total	(35,573)	(41,333)
Net deferred tax assets	6,595	1,976

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

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

Previous fiscal year as of December 31, 2021

(Millions of yen)

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

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

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

Current fiscal year as of December 31, 2022

(Millions of yen)

	Within 1 year	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years	Total
Tax loss carryforwards (*3)	1,981	144	245	355	370	40,326	43,421
Valuation allowance	(1,863)	(105)	(189)	(243)	(236)	(33,668)	(36,303)
Net deferred tax assets	118	40	56	112	134	6,659	(*4)7,118

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

(*4) Deferred tax assets of ¥7,118 million was recognized for tax loss carryforwards of ¥43,421 million. No valuation allowance is recognized for tax loss carryforwards since the amount was determined to be recoverable based on expected future taxable income.

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

	Previous fiscal year as of December 31, 2021	Current fiscal year as of December 31, 2022
Normal effective statutory tax rate	30.6%	30.6%
(Adjustments)		
Valuation allowance change	48.8	7.6
Tax rate differences	(3.5)	(2.1)
Equity in earnings of affiliates	(2.8)	(2.1)
Entertainment and other non-deductible expenses	6.4	8.8
Elimination of intercompany dividends income	20.1	6.9
Dividends income and other non-taxable income	(24.4)	(4.8)
State, provincial, municipal and local taxes	0.6	1.4
Tax credit for research and development and others	(3.7)	(0.3)
Tax credit for the Special Tax Law for the March 11 Earthquake	(0.6)	—
Other	8.4	1.0
Actual effective tax rate after applying tax effect accounting	79.9	47.0

(Business Combinations)

1. Finalization of preliminary accounting treatment related to business combinations

With regard to acquisition of the shares and assets of the Colors & Effects pigment business from BASF SE of Germany, which is the largest chemical manufacturer in Europe, although preliminary accounting treatment was adopted in the fiscal year ended at December 31, 2021, the treatment has been finalized in the fiscal year ended at December 31, 2022.

In line with finalizing this preliminary accounting treatment, purchase price allocation has been revised as follows.

Goodwill before revision	¥19,598 million
Goodwill revised amount	
Current assets	2,362 million
Non-current assets	149 million
Current liabilities	(889 million)
Non-current liabilities	(1,679 million)
Revised amount total	(58 million)
Goodwill after revision	¥19,540 million

2. Business combination resulting from acquisitions

On January 10, 2022, the Group acquired all shares of Sapici S.p.A. ("SAPICI"), which is an Italian adhesives and polymers manufacturer and its holding company, Finape S.r.l.

(1) Overview of the business combination

(a) Name of acquired companies and their business	
Name of acquired companies	Sapici S.p.A and Finape S.r.l
Business	Manufacture and sale of adhesive and polymer products
(b) Date of the business combination	January 10, 2022
(c) Legal form of the business combination	Acquisition of shares for a cash consideration
(d) Name of entity after acquisition	Sapici S.p.A. Finape S.r.l. has dissolved in merger with Sapici S.p.A., which was treated as surviving company
(e) Percentage of voting rights acquired	100.0%
(f) Basis for determining the acquiring company	The Group acquired the shares for a cash consideration.

(2) Objectives of the business combination

Markets for adhesives continue to expand around the world, with those in Europe and the Americas—which together represent half of the overall global market—in particular projected to see further growth as needs for environment-friendly products increase against a backdrop of rising concern for environmental impact and safety. Under the slogan "More than Packaging/Sustainable Solutions," the Group continues to develop and launch environment-friendly adhesives in Japan and other Asian markets. However, because the Group lacks adhesives development and production bases in Europe and the Americas, opportunities to enhance its operations in these markets by offering products aligned with local needs have been limited.

In addition to its outstanding quality control and technical capabilities, SAPICI, a Sun Chemical S.p.A. adhesives production outsourcing contractor, is known as the first company in the world to successfully commercialize ULM, ultra-low monomer polyisocyanate, with the lowest possible hazardous substance content. Access to SAPICI's production technologies will give the Group a competitive edge in Europe, where needs for ULM are high. The Group expects this acquisition to reinforce its global adhesives supply configuration and promoting complementary strategic products in regions around the world with the goal of boosting annual global sales of adhesives.

(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, 2022

January 10, 2022–December 31, 2022

(4) Cost of acquisition and breakdown by type of consideration

Not disclosed due to confidentiality between the parties

(5) Description and amount of major acquisition costs

Advisory fees and others	¥17 million

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

(a) Amount of goodwill arising from the business combination	¥2,695 million
(b) 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.
(c) 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

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

Customer-related assets	¥4,213 million
Technologies and related assets	2,034 million
Trademarks	630 million
Total	¥6,877 million

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

Customer-related assets	20 years
Technologies and related assets	11 years
Trademarks	15 years
Total	16 years

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

Current assets	¥8,287 million
Non-current assets	9,968 million
Total assets acquired	¥18,255 million
Current liabilities	¥3,123 million
Non-current liabilities	2,542 million
Total liabilities assumed	¥5,665 million

(9) Estimated effect of the business combination on the consolidated statement of income and its calculation method provided that the business combination was completed at the beginning of the fiscal year ended December 31, 2022

Omitted for lack of significance. This footnote has not been audited.

3. Business combination resulting from acquisitions

On July 1, 2022, the Group acquired all shares of Guangdong TOD New Materials Co., Ltd. (“Guangdong TOD”), which is a Chinese coating resins manufacturer.

(1) Overview of the business combination

(a) Name of acquired companies and their business	
Name of acquired companies	Guangdong TOD New Materials Co., Ltd.
Business	Manufacture and sale of coating resins
(b) Date of the business combination	July 1, 2022
(c) Legal form of the business combination	Acquisition of shares for a cash consideration
(d) Name of entity after acquisition	Guangdong DIC TOD Resins Co., Ltd.
(e) Percentage of voting rights acquired	100.0%
(f) Basis for determining the acquiring company	The Group acquired the shares for a cash consideration.

(2) Objectives of the business combination

This acquisition supports the Company's ongoing efforts to expand its Asian market coating resins capacity, focused particularly on China—the world's largest coating resins market. In China, the Company operates two coating resins manufacturing centers—in Zhongshan and Zhangjiagang—to meet local market demand. However, both of the Company's manufacturing centers are operating near full production capacity with little room for greater expansion.

Thus, the Company decided to explore acquiring a local producer with a customer base in China as the most effective means to quickly expand its business in China. After screening several candidates, the Company reached out to Guangdong TOD as the most strategically aligned candidate for the Company's polymer business, signing a share transfer agreement.

(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, 2022

July 1, 2022–December 31, 2022

(4) Cost of acquisition and breakdown by type of consideration

Not disclosed due to confidentiality between the parties

(5) Description and amount of major acquisition costs

Advisory fees and others	¥568 million

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

(a) Amount of goodwill arising from the business combination	¥10,897 million
(b) 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.
(c) 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

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

Customer-related assets	¥3,137 million
Trademarks	1,752 million
Technologies and related assets	570 million
Total	¥5,459 million

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

Customer-related assets	20 years
Trademarks	10 years
Technologies and related assets	13 years
Total	15 years

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

Current assets	¥5,131 million
Non-current assets	9,585 million
Total assets acquired	¥14,715 million
Current liabilities	¥2,637 million
Non-current liabilities	1,892 million
Total liabilities assumed	¥4,529 million

(9) Estimated effect of the business combination on the consolidated statement of income and its calculation method provided that the business combination was completed at the beginning of the fiscal year ended December 31, 2022

Omitted for lack of significance. This footnote has not been audited.

(Asset Retirement Obligations)
Omitted for lack of significance.

(Rentals and Other Real Estate Assets)
Omitted for lack of significance.

(Revenue Recognition)

1. Information that provides a basis for disaggregating revenue from contracts with customers

Current fiscal year ended December 31, 2022

(Millions of yen)

	Reportable segments				Others	Total
	Packaging & Graphic	Color & Display	Functional Products	Subtotal		
Sales to external customers						
Japan	115,779	23,610	167,643	307,032	361	307,393
Overseas	417,230	185,445	143,936	746,612	195	746,807
Total	533,009	209,056	311,579	1,053,644	556	1,054,201

2. Information that provides a basis for understanding revenue from contracts with customers

Basic information for understanding revenue from contracts with customers is described in “(5) Revenue and expense recognition standards” within “4. Accounting Policies” in “[Notes] (Basis of Preparation of Consolidated Financial Statements)”.

3. Information that provides for understanding the amount of revenue in the fiscal year ended December 31, 2022, and in subsequent fiscal years

(1) Receivables from contracts with customers and contract liabilities

(Millions of yen)

	FY2022
Receivables from contracts with customers (beginning balance)	237,916
Receivables from contracts with customers (ending balance)	247,520
Contract liabilities (beginning balance)	454
Contract liabilities (ending balance)	607

Contract liabilities relate primarily to advances received from customers prior to the delivery of goods or services. The contract liabilities are reversed upon recognition of revenue.

Within the opening balance of contract liabilities as of January 1, 2022, the amount recognized as revenue for the fiscal year ended December 31, 2022, was immaterial. Revenue recognized in the fiscal years ended December 31, 2021 and 2022, in relation with performance obligations satisfied (or partially satisfied) in preceding fiscal years was immaterial. There were no significant changes in the balance of contract assets or the balance of contract liabilities.

(2) Transaction prices allocated to remaining performance obligations

Since there are no significant contracts with an initially expected contract period exceeding one year, the Group has applied the practical expedient method and transaction prices allocated to remaining performance obligations are omitted. There are no material considerations arising from contracts with customers that are not included in transaction amounts.

(Segment Information, etc.)

[Segment Information]

1. Description of Reportable Segments

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

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

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

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

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

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

Segment profits are based on operating income.

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

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

Previous fiscal year ended December 31, 2021

(Millions of yen)

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

Current fiscal year ended December 31, 2022

(Millions of yen)

	Reportable segments				Others	Total
	Packaging & Graphics	Color & Display	Functional Products	Total		
Net sales:						
Sales to external customers	533,009	209,056	311,579	1,053,644	556	1,054,201
Intersegment sales and transfers	—	39,159	3,813	42,972	—	42,972
Total	533,009	248,215	315,392	1,096,616	556	1,097,173
Segment profit	20,327	5,099	23,618	49,044	397	49,441
Segment assets	461,590	348,705	395,833	1,206,128	48,276	1,254,405
Others:						
Depreciation and amortization	17,491	13,334	14,828	45,652	478	46,129
Amortization of goodwill	203	1,078	385	1,666	—	1,666
Investments in equity-method affiliates	6,784	12,507	26,905	46,195	—	46,195
Increase in property, plant and equipment and intangible assets	14,835	11,490	21,707	48,032	262	48,294

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

(Millions of yen)

Net sales	Previous fiscal year ended December 31, 2021	Current fiscal year ended December 31, 2022
Reportable segments total	890,319	1,096,616
Sales in “Others”	441	556
Elimination of intersegment transactions	(35,381)	(42,972)
Net sales reported in the consolidated financial statements	855,379	1,054,201

(Millions of yen)

Profit	Previous fiscal year ended December 31, 2021	Current fiscal year ended December 31, 2022
Reportable segments total	51,774	49,044
Profit in “Others”	408	397
Corporate expenses	(9,289)	(9,759)
Operating income reported in the consolidated financial statements	42,893	39,682

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

(Millions of yen)

Assets	Previous fiscal year as of December 31, 2021	Current fiscal year as of December 31, 2022
Reportable segments total	1,025,982	1,206,128
Assets in “Others”	41,539	48,276
Elimination of intersegment assets	(46,159)	(50,822)
Corporate assets	50,119	58,055
Total assets reported in the consolidated financial statements	1,071,481	1,261,637

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

(Millions of yen)

Other items	Total reportable segments		Other		Adjustment		Amount recognized in the consolidated financial statements	
	Previous fiscal year	Current fiscal year	Previous fiscal year	Current fiscal year	Previous fiscal year	Current fiscal year	Previous fiscal year	Current fiscal year
Depreciation and amortization	35,917	45,652	500	478	977	996	37,394	47,126
Amortization of goodwill	656	1,666	—	—	—	—	656	1,666
Investments in equity-method affiliates	41,496	46,195	—	—	—	—	41,496	46,195
Increase in property, plant and equipment and intangible assets	37,247	48,032	275	262	1,119	1,195	38,641	49,489

(Notes) Adjustments are as follows:

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

[Related Information]

Previous fiscal year ended December 31, 2021

1. Information by product and service

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

2. Information by region

(1) Net sales

(Millions of yen)

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

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

(2) Property, plant and equipment

(Millions of yen)

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

3. Information by major customer

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

Current fiscal year ended December 31, 2022

1. Information by product and service

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

2. Information by region

(1) Net sales

(Millions of yen)

Japan	United States	Others	Total
307,393	150,731	596,077	1,054,201

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

(2) Property, plant and equipment

(Millions of yen)

Japan	United States	Others	Total
127,787	64,792	160,956	353,536

3. Information by major customer

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

[Information About Impairment Losses on Non-current Assets by Reporting Segment]

Previous fiscal year ended December 31, 2021

(Millions of yen)

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

Current fiscal year ended December 31, 2022

(Millions of yen)

	Packaging & Graphic	Color & Display	Functional Products	Others	Corporate and eliminations	Total
Impairment losses	—	—	1,107	—	—	1,107

[Information About Amortization of Goodwill and Unamortized Balance by Reportable Segment]

Previous fiscal year ended December 31, 2021

(Millions of yen)

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

Current fiscal year ended December 31, 2022

(Millions of yen)

	Packaging & Graphic	Color & Display	Functional Products	Others	Corporate and eliminations	Total
Amortization for the year	203	1,078	385	—	—	1,666
Balance at the end of the year	2,924	20,343	10,374	—	—	33,641

(Related Parties)

1. Related-Party Transactions

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

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

Previous fiscal year ended December 31, 2021

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

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

Policy for Determining Terms and Conditions

(Notes)

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

Current fiscal year ended December 31, 2022

Type of related party	Name	Location	Capital or investment (Millions of yen)	Principal business	Ownership of voting rights	Relation with related parties	Contents of transactions	Amount of transaction (Millions of yen)	Account	Balance at year-end (Millions of yen)
Companies where directors and their close relatives owned a majority of the voting rights (Note 1)	Nissei Real-Estate Co., Ltd.	Chiyoda-ku, Tokyo	10	Rental of properties and others	—	Rental of buildings and others	Rental of buildings and others (Note 2)	2,225	Security deposit	1,664
	Dainichi Can Co., Ltd.	Chiyoda-ku, Tokyo	10	Manufacture and sale of metallic containers	—	Purchase of metallic containers and others	Purchase of metallic containers and others (Note 3)	458	Electronically recorded obligations, accounts payable - trade, and accounts payable - other	174
							Sales of merchandise and finished goods and offering of services (Note 4)	54	Notes and accounts receivable - trade	19
	Nissin Trading Co., Ltd.	Chiyoda-ku, Tokyo	20	Sale, import and export of petrochemical-related products	—	Purchase of raw materials and others	Purchase of raw materials and others (Note 5)	8,851	Electronically recorded obligations, accounts payable - trade, and accounts payable - other	2,105
							Sales of merchandise and finished goods and offering of services (Note 4)	3,960	Accounts receivable - trade and accounts receivable - other	1,420

Policy for Determining Terms and Conditions

(Notes)

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

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

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

Previous fiscal year ended December 31, 2021

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

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

Policy for Determining Terms and Conditions

(Notes)

1. Yoshihisa Kawamura, a director of the Company, and his close relatives substantially own a majority of the voting rights of Nissei Real-Estate Co., Ltd. Dainichi Can Co., Ltd. and Nissin Trading Co., Ltd. are fully owned by Nissei Real-Estate Co., Ltd. SHANGHAI NISSIN TRADING CO., LTD. is fully owned by Nisshin Trading Co., Ltd.

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

Current fiscal year ended December 31, 2022

Type of related party	Name	Location	Capital or investment (Millions of yen)	Principal business	Ownership of voting rights	Relation with related parties	Contents of transactions	Amount of transaction (Millions of yen)	Account	Balance at year-end (Millions of yen)
Companies where directors and their close relatives owned a majority of the voting rights. etc. (including subsidiaries of said companies, etc.) (Note 1)	Nissei Real-Estate Co., Ltd.	Chiyoda-ku, Tokyo	10	Rental of properties and others	—	Rental of buildings and others	Rental of buildings and others (Note 2)	14	Security deposit	7
	Dainichi Can Co., Ltd.	Chiyoda-ku, Tokyo	10	Manufacture and sale of metallic containers	—	Purchase of metallic containers, and others	Purchase of metallic containers and others (Note 3)	780	Electronically recorded obligations, accounts payable - trade, and accounts payable - other	325
							Sales of merchandise and finished goods and offering of services (Note 4)	63	Notes and accounts receivable - trade	27
	SHANGHAI DAINICHI CAN CO., LTD.	Shanghai, PRC	US $134 thousand	Manufacture and sale of metallic containers	—	Purchase of metallic containers, and others	Purchase of metallic containers and others (Note 3)	14	—	—
	Nissin Trading Co., Ltd.	Chiyoda-ku, Tokyo	20	Sale, import and export of petrochemical -related products	—	Purchase of raw materials, and others	Purchase of raw materials and others (Note 5)	1,784	Electronically recorded obligations, accounts payable - trade, and accounts payable - other	299
							Sales of merchandise and finished goods and offering of services (Note 4)	806	Accounts receivable - trade and accounts receivable - other	273
	SHANGHAI NISSIN TRADING CO., LTD.	Shanghai, PRC	US $200 thousand	Sale, import and export of petrochemical -related products	—	Purchase of raw materials, and others	Purchase of raw materials and others (Note 5)	558	Accounts payable - trade	253
							Sales of merchandise and finished goods and offering of services (Note 4)	219	Accounts receivable - trade and accounts receivable - other	60

Policy for Determining Terms and Conditions

(Notes)

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

2. Notes on the Parent company and Significant Affiliates

Not applicable.

(Per Share Information)

	Previous consolidated fiscal year (From January 1, 2021 to December 31, 2021)	Current consolidated fiscal year (From January 1, 2022 to December 31, 2022)
Shareholder’s equity per share	3,654.61 yen	4,088.60 yen
Earnings per share	46.12 yen	186.05 yen

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

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

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

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

	Previous consolidated fiscal year (From January 1, 2021 to December 31, 2021)	Current consolidated fiscal year (From January 1, 2022 to December 31, 2022)
Net income attributable to owners of the parent (Millions of yen)	4,365	17,610
Amount not attributable to common shareholders (Millions of yen)	—	—
Net income attributable to owners of the parent of common stock (Millions of yen)	4,365	17,610
Average number of shares of common stock during the period (1000 shares)	94,655	94,654

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

	Previous consolidated fiscal year (From January 1, 2021 to December 31, 2021)	Current consolidated fiscal year (From January 1, 2022 to December 31, 2022)
Net assets (Millions of yen)	381,008	421,088
Amount to be excluded from the total amount of Net assets (Millions of yen)	35,081	34,091
(Non-controlling interests)	(35,081)	(34,091)
Net assets at the end of the period for common stock (Millions of yen)	345,927	386,997
Number of common shares used in the calculation of shareholder’s equity per share at the end of the period (1000 shares)	94,655	94,653

(Significant Subsequent Events)

Business combination under common control

Absorption-type merger of wholly owned subsidiary

At the meeting of the Board of Directors held on June 27, 2022, the Company resolved to implement an absorption-type merger of wholly owned subsidiary Colors & Effects Japan Ltd. (“Colors & Effects Japan”), with an effective date of January 1, 2023. The merger was conducted on January 1, 2023.

(1) Name of company merged and description of business

Name of company merged:	Colors & Effects Japan Ltd.
Description of business:	Import, export, sale, distribution and technical service related to pigments, processed pigments and colorants, as well as intermediates thereof.

(2) Date of merger

January 1, 2023

(3) Merger method

Absorption-type merger with DIC as the surviving company and Colors & Effects Japan dissolved and absorbed

(4) Assets and liabilities transferred

Pursuant to the conditions of the absorption-type merger agreement, the Company assumed the assets, liabilities, contracts, and other rights and obligations of the merged company.

(5) Allocations related to the merger

No shares were issued and no monies or other property were allocated at the time of this merger.

(6) Company name after merger

DIC Corporation

This merger has not resulted in any changes to the Company’s name, capital or businesses.

(7) Other details regarding this transaction

On June 30, 2021, the Company completed its acquisition of global pigments business Colors & Effects from BASF SE of Germany. Colors & Effects Japan is one of the companies that make up this business. The decision to carry out this merger was made with the aim of achieving the integrated global management of the Company’s pigments businesses and realizing synergies with the newly acquired company as swiftly as possible.

(8) Accounting treatment used

In accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, issued January 16, 2019) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, issued January 16, 2019), this merger will be accounted for as a transaction under common control.

⑤ Consolidated Supplementary Schedules

[Schedule of Bonds Payable]

Company	Description	Date of issuance	Balance at the beginning of current fiscal year (Millions of yen)	Balance at the ending of current fiscal year (Millions of yen)	Due within one year (Millions of yen)	Interest rate	Collateral	Maturity
(Note 1)	36th unsecured bonds	February 4, 2015	10,000	—	—	0.53%	None	February 4, 2022
(Note 1)	37th unsecured bonds	September 18, 2015	10,000	10,000	—	1.00%	None	September 18, 2025
(Note 1)	38th unsecured bonds	July 12, 2016	5,000	5,000	—	0.95%	None	July 11, 2036
(Note 1)	39th unsecured bonds	September 15, 2016	5,000	5,000	—	0.36%	None	September 15, 2026
(Note 1)	40th unsecured bonds	April 21, 2017	10,000	10,000	—	0.42%	None	April 21, 2027
(Note 1)	41st unsecured bonds	July 12, 2017	10,000	—	—	0.15%	None	July 12, 2022
(Note 1)	42nd unsecured bonds	April 17, 2018	10,000	10,000	10,000	0.15%	None	April 17, 2023
(Note 1)	43rd unsecured bonds	April 19, 2019	10,000	10,000	—	0.19%	None	April 19, 2024
(Note 1)	44th unsecured bonds	October 25, 2019	10,000	10,000	—	0.28%	None	October 25, 2029
(Note 1)	45th unsecured bonds	July 16, 2020	20,000	20,000	20,000	0.05%	None	July 14, 2023
(Note 1)	46th unsecured bonds	September 22, 2021	20,000	20,000	—	0.001%	None	September 20, 2024
(Note 1)	47th unsecured bonds	September 22, 2021	10,000	10,000	—	0.13%	None	March 19, 2027
(Note 1)	48th unsecured bonds	September 22, 2021	15,000	15,000	—	0.23%	None	September 21, 2028
(Note 1)	49th unsecured bonds	September 22, 2021	15,000	15,000	—	0.30%	None	September 22, 2031
—	Total	—	160,000	140,000	30,000	—	—	—

(Notes) 1. DIC Corporation

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

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

[Schedule of Loans]

Category	Balance at the beginning of current fiscal year (Millions of yen)	Balance at the ending of current fiscal year (Millions of yen)	Average interest rate	Payment due
Short-term loans payable	10,437	26,056	3.53%	—
Current portion of long-term loans payable	37,131	35,928	1.16%	—
Long-term loans payable (Excluding current portion of long-term loans payable)	171,443	260,259		2024 to 2032
Current portion of lease liabilities	1,092	4,607	—	—
Lease liabilities (Excluding Current portion of lease liability)	4,112	12,479		2024 to 2067
Other interest-bearing liabilities Commercial paper due within one year	—	30,000	(0.03) %	—
Total	224,214	369,328	—	—

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

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

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

	Over 1 year to 2 years (Millions of yen)	Over 2 years to 3 years (Millions of yen)	Over 3 years to 4 years (Millions of yen)	Over 4 years to 5 years (Millions of yen)
Long-term loans payable	29,217	35,044	95,896	29,886
Lease liabilities	3,668	2,876	1,697	1,278

[Asset Retirement Obligations Schedule]

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

(2) Other Information

Quarterly Financial Information for current fiscal year

(Cumulative Period)	1st Quarter	2nd Quarter	3rd Quarter	Current fiscal year
Net sales (Millions of yen)	250,958	521,411	795,151	1,054,201
Income before income taxes and non-controlling interests (Millions of yen)	11,976	23,968	32,160	35,179
Net income attributable to owners of parent (Millions of yen)	7,404	14,390	17,806	17,610
Earnings per share (Yen)	78.22	152.03	188.12	186.05

(Accounting Period)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Earnings per share (net loss per share) (Yen)	78.22	73.81	36.09	(2.07)

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

VI. Stock-Related Administration for the Company

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

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

(1) Rights listed in each item of Article 189, Paragraph 2 of the Companies Act

(2) The right to make a request under Article 166, Paragraph 1 of the Companies Act

(3) The right to receive the allotment of shares for subscription and the allotment of share options for subscription in proportion to the number of shares held by shareholders

VII. Reference Information of the Company

1. Information on the Parent Company

The Company has no parent company.

2. Other Reference Information

The following documents were filed during the period from the commencing date of current fiscal year ended December 31, 2022 to the filing date of the Annual Securities Report.

(1) Annual Securities Report and Documents Attached and Confirmation Letter Business term 124th (From January 1, 2021 to December 31, 2021)	March 29, 2022 Filed with the Director-General of the Kanto Local Finance Bureau
(2) Management's Report on Internal Control and Documents Attached	March 29, 2022 Filed with the Director-General of the Kanto Local Finance Bureau
(3) Amendment to Shelf Registration Statement	March 30, 2022 Filed with the Director-General of the Kanto Local Finance Bureau
(4) Extraordinary Report Pursuant to Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, item 9-2 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs (Results of Execution of Voting Rights at the General Meeting of Shareholders)	March 30, 2022 Filed with the Director-General of the Kanto Local Finance Bureau
(5) Amendment to Shelf Registration Statement	March 30, 2022 Filed with the Director-General of the Kanto Local Finance Bureau
(6) Quarterly Reports and Confirmation Letter First Quarter of Business term 125th (From January 1, 2022 to March 31, 2022)	May 16, 2022 Filed with the Director-General of the Kanto Local Finance Bureau
(7) Extraordinary Report Pursuant to Article 19, Paragraph 2, item 7-3 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs (Decision of Absorption-type merger by the meeting of the Board of Directors)	June 27, 2022 Filed with the Director-General of the Kanto Local Finance Bureau
(8) Amendment to Shelf Registration Statement	June 27, 2022 Filed with the Director-General of the Kanto Local Finance Bureau
(9) Quarterly Report and Confirmation Letter Second Quarter of Business term 125th (From April 1, 2022 to June 30, 2022)	August 10, 2022 Filed with the Director-General of the Kanto Local Finance Bureau
(10) Quarterly Report and Confirmation Letter Third Quarter of Business term 125th (From July 1, 2022 to September 30, 2022)	November 14, 2022 Submitted to the Director-General of the Kanto Local Finance Bureau

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

Not applicable.

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

March 28, 2023

To the Board of Directors of
DIC Corporation:

Deloitte Touche Tohmatsu LLC
Tokyo office

Designated Engagement Partner,
Certified Public Accountant:

Takaya Otake

Designated Engagement Partner,
Certified Public Accountant:

Teppei Yamamoto

Audit of Financial Statements

Opinion

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements of DIC Corporation and its consolidated subsidiaries (the "Group") included in the Financial Section, namely, the consolidated balance sheet as of December 31, 2022, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fiscal year from January 1, 2022 to December 31, 2022, and a summary of significant accounting policies and other explanatory information, and the consolidated supplementary schedules.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><td colspan="2">Purchase price allocation and valuation of goodwill related to acquisition of the shares and assets of the Colors & Effects pigment business from BASF SE</td></tr>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td>As described in Notes to Business Combinations and Notes to Accounting Estimates in the consolidated financial statements, the Group acquired the shares and assets of the Colors & Effects business from BASF SE of Germany on June 30, 2021.

Acquisition costs shall be allocated to assets acquired and liabilities assumed within one year after the acquisition date based on the fair values of identifiable assets and liabilities as of the acquisition date. As a result of the finalization of purchase price allocation during the current fiscal year, the Group decreased current assets by ¥2,362 million, non-current assets by ¥149 million, current liabilities by ¥889 million and non-current liabilities by ¥1,679 million, and revised goodwill, which is identified by the acquisition, to ¥19,540 million. The total amount of identified assets including goodwill is quantitatively significant.

Depending on the nature of the assets, fair values are estimated using the cost approach, income approach such as relief–from royalty method, and market approach. The following assumptions are mainly used to estimate the fair value:

• Property, plant and equipment

Market price, replacement cost, future cash flow projection and discount rate

• Intangible assets

Market price, royalty rate, future cash flow projection and discount rate

Additionally, the goodwill, which is identified as a result of the purchase price allocation, is assigned to a reporting unit that is expected to benefit from the synergies of the business combination, and it is tested for impairment on an annual basis or whenever an event occurs or circumstances change that would indicate more likely than not the fair value of a reporting unit is below its carrying amount.

Based on the goodwill impairment test, the Group concluded there was no impairment to be recognized because the fair value of the reporting unit exceeded its carrying amount. The fair value of a reporting unit is primarily determined by discounting its estimated</td><td>To address the key audit matter, we tested the effectiveness of internal controls over the identification of assets and liabilities, and fair value measurement related to the acquisition. Additionally, we performed the following audit procedures, among others:

• We inquired of management and inspected the related contracts and minutes in order to understand the purpose of the acquisition, and the business and business environment of the acquired business.

• We assessed the competence, capabilities and objectivity of the valuation experts used by management in identifying the assets acquired and liabilities assumed and estimating fair values.

• With the assistance of our network firm's fair value specialists, we evaluated the reasonableness of the following factors depending on the nature of assets and valuation method:

  • Valuation methodologies in fair value measurements

  • Assumptions in fair value measurements

Additionally, we tested the effectiveness of internal controls over the valuation of goodwill and performed the following audit procedures, among others:

• In order to understand changes in the business environment and future plan of the reporting unit to which the goodwill was assigned since the acquisition date, we inquired of management, inspected the related contracts and minutes, and compared with available external data, such as market forecasts.

• We assessed the competence, capabilities and objectivity of the valuation experts used by management in evaluating the goodwill.

• We evaluated the reasonableness of the following factors with the assistance of our network firm's fair value specialists:</td></tr>
</table>

future cash flow to present value. The estimated future cash flow is based on the future business plan, which includes the expected sales growth rate considering the market conditions, and the determination of discount rate and long-term growth rate requires valuation expertise. As a result of the purchase price allocation, the Group recognized assets including goodwill that are quantitatively significant. Furthermore, the future business plan used in the valuation of the goodwill largely involves subjective judgments made by management. There is a potential risk that the Group's financial position and future financial performance may not be properly presented if the methodologies and assumptions used for the purchase price allocation and the estimate of fair value underlying the valuation are inappropriate. Therefore, we identified it as a key audit matter.	• Valuation methodologies to test goodwill for impairment • Assumptions to test goodwill for impairment

Purchase price allocation and valuation of goodwill related to acquisition of the shares of Guangdong TOD New Materials Co., Ltd.	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
As described in Notes to Business Combinations and Notes to Accounting Estimates in the consolidated financial statements, the Group acquired the shares of Guangdong DIC TOD Resins Co., Ltd. (formerly Guangdong TOD New Materials Co., Ltd.), a Chinese coating resins manufacturer, on July 1, 2022. Acquisition costs shall be allocated to assets acquired and liabilities assumed within one year after the acquisition date based on the fair values of identifiable assets and liabilities as of the acquisition date. The Group finalized the purchase price allocation in this fiscal year and recognized Property, plant and equipment of ¥3,981 million, including Buildings and structures of ¥1,883 million, Machinery, equipment and vehicles of ¥1,328 million, and Land of ¥672 million, Intangible assets of ¥5,459 million, including Customer related assets ¥3,137 million, Trademarks of ¥1,752 million, and Technologies and related assets of ¥570 million, and Goodwill of ¥10,897 million in the consolidated balance sheet. The total amount of identified assets including goodwill is quantitatively significant. Depending on the nature of the assets, fair values are estimated using the cost approach, income approach such as multi-period excess earnings method or relief–from royalty method, cost approach and market approach. The following assumptions are mainly used to estimate the fair value: • Property, plant and equipment Market price, economic useful life	To address the key audit matter, we tested the effectiveness of internal controls over the identification of assets and liabilities, and fair value measurement related to the acquisition. Additionally, we performed the following audit procedures, among others: • We inquired of management and inspected the related contracts and minutes in order to understand the purpose of the acquisition, and the business and business environment of the acquired business. • We assessed the competence, capabilities and objectivity of the valuation experts used by management in identifying the assets acquired and liabilities assumed and estimating fair values. • We evaluated the reasonableness of the following factors with the assistance of our fair value specialists depending on the nature of assets and valuation method: • Valuation methodologies in fair value measurements • Assumptions in fair value measurements Additionally, we tested the effectiveness of internal controls over the valuation of goodwill and performed the following audit procedures, among others: • In order to understand the group of cash-generating units and changes in its business environment and future plan

• Intangible assets Attrition rate to existing customers, market price, royalty rate, future cash flow projection and discount rate Additionally, the goodwill, which is identified as a result of the purchase price allocation, is assigned to a group of cash generating units that are expected to benefit from the synergies of the business combination, and it is tested for impairment on an annual basis. Based on the test of goodwill for impairment, the Group concluded there was no impairment to be recognized because the recoverable amount of the group of cash generating units exceeded its carrying amount. The recoverable amount of a group of cash generating units is primarily determined by discounting its estimated future cash flow to present value. The estimated future cash flow is based on the future business plan, which includes the expected sales growth rate considering the market conditions, and the determination of discount rate and long term growth rate requires valuation expertise. As a result of the purchase price allocation, the Group recognized assets including goodwill that are quantitatively significant. Furthermore, the future business plan used in the valuation of the goodwill largely involves subjective judgments made by management. There is a potential risk that the Group's financial position and future financial performance may not be properly presented if these methodologies and assumptions used for the purchase price allocation and the estimate of fair value and recoverable amount underlying the valuation are inappropriate. Therefore, we identified it as a key audit matter.	since the acquisition date, we inquired of management, inspected the related minutes, and compared with available external data, such as market forecasts. · We evaluated the reasonableness of the valuation methodologies and assumptions used by management to test goodwill for impairment

Other Information

Management is responsible for the other information. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the other information. The other information comprises the information included in the Annual Securities Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Audit of Internal Control

Opinion

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting of DIC Corporation as of December 31, 2022.

In our opinion, management's report on internal control over financial reporting referred to above, which represents that the internal control over financial reporting of DIC Corporation as of December 31, 2022, is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

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

Responsibility of Management and Audit & Supervisory Board for Report on Internal Control

Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing and verifying the design and operating effectiveness of internal control over financial reporting. There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibilities for the Internal Control Audit

Our objectives are to obtain reasonable assurance about whether management's report on internal control over financial reporting is free from material misstatement and to issue an auditor's report that includes our opinion.

As part of an audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform audit procedures to obtain audit evidence regarding the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on the auditor's judgment, including the significance of effects on reliability of financial reporting.

- Examine representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of management's report on internal control.

- Obtain sufficient appropriate audit evidence regarding the results of the assessment of internal control over financial reporting. We are responsible for the direction, supervision and performance of the internal control audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the internal control audit, result of the internal control audit, including any identified material weakness which should be disclosed and the result of remediation.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

<u>Notes to the Readers of Independent Auditor's Report</u>

This is an English translation of the independent auditor's report as required by the Financial Instruments and Exchange Act of Japan for the conveniences of the reader.

[Cover]

[Document filed]	Confirmation Letter
[Applicable law]	Article 24-4-2, paragraph 1 of the Financial Instruments and Exchange Act of Japan
[Filed with]	Director, Kanto Local Finance Bureau
[Filing date]	March 29, 2023
[Company name]	DIC Kabushiki-Kaisha
[Company name in English]	DIC Corporation
[Name and title of chief executive officer]	Kaoru Ino, Representative Director, President, and CEO
[Name and title of chief financial officer]	Shuji Furuta, Director, Managing Executive Officer, CFO, and Head of Finance and Accounting Unit
[Registered address]	35-58, Sakashita 3-chome, Itabashi-ku, Tokyo, Japan
[Locations where records are available for public inspection]	Corporate headquarters, DIC Corporation (7-20, Nihonbashi 3-chome, Chuo-ku, Tokyo, Japan) Osaka Branch, DIC Corporation (5-19, Kyutaro-machi 3-chome, Chuo-ku, Osaka, Japan) Nagoya Branch, DIC Corporation (7-15, Nishiki 3-chome, Naka-ku, Nagoya, Japan) Tokyo Stock Exchange (2-1, Nihonbashi Kabuto cho, Chuo-ku, Tokyo, Japan)

1. Appropriateness of Statements in the Annual Securities Report

Kaoru Ino, Representative Director, President, and CEO and Shuji Furuta, Director, Managing Executive Officer, CFO, and Head of Finance and Accounting Unit, confirmed that the contents of our company's annual securities report for the 125th Business Term (from January 1, 2022 to December 31, 2022) were stated appropriately in accordance with the Financial Instruments and Exchange Act and Related Regulations.

2. Special Notes

Not applicable.

[Cover]

Document filed	Management's Report on Internal Control
Applicable law	Article 24-4 -4, paragraph 1 of the Financial Instruments and Exchange Act of Japan
Filed with	Director, Kanto Local Finance Bureau
Filing date	March 29, 2023
Company name	DIC Kabushiki Kaisha
Company name in English	DIC Corporation
Name and title of chief executive officer	Kaoru Ino, Representative Director, President, and CEO
Name and title of chief financial officer	Shuji Furuta, Director, Managing Executive Officer, CFO, and Head of Finance and Accounting Unit
Registered address	35-58, Sakashita 3-chome, Itabashi-ku, Tokyo, Japan
Locations where records are available for public inspection	Corporate headquarters, DIC Corporation (7-20, Nihonbashi 3-chome, Chuo-ku, Tokyo, Japan) Osaka Branch, DIC Corporation (5-19, Kyutaro-machi 3-chome, Chuo-ku, Osaka, Japan) Nagoya Branch, DIC Corporation (7-15, Nishiki 3-chome, Naka-ku, Nagoya, Japan) Tokyo Stock Exchange (2-1, Nihonbashi Kabuto cho, Chuo-ku, Tokyo, Japan)

1. Matters relating to basic framework for internal controls over financial reporting

Kaoru Ino, President and CEO, and Shuji Furuta, Director, Managing Executive Officer, CFO, and Head of Finance and Accounting Unit, are responsible for designing and operating effective internal controls over the Company's financial reporting and have done so in accordance with the basic framework for internal controls over financial reporting set forth in "the Business Accounting Council's Opinions Titled on the Setting of Standards and Practice Standards for Management Assessment and Audit Concerning Internal Control over Financial Reporting."

The purpose of internal controls is to achieve the objectives thereof to a reasonable extent through the organic combination and functioning of such controls' basic individual elements. Accordingly, there is a possibility that internal controls over financial reporting may not completely prevent or detect misstatements.

2. Matters relating to assessment scope, date, and procedures

The assessment of internal controls over financial reporting was performed as of December 31, 2022, which is the final day of the fiscal year. This assessment was conducted in accordance with relevant standards generally accepted in Japan.

The Company began this process by evaluating internal controls seen as possibly having a material impact on its overall consolidated financial reporting ("company-level controls"), the results of which were used to select business processes for assessment. The Company then analyzed these business processes to identify key controls likely to materially impact the reliability of its financial reporting and assessed the design and operation thereof. This enabled the Company to accurately assess the effectiveness of these internal controls.

The Company determined the necessary scope of its assessment of internal controls over financial reporting from the perspective of the materiality of potential impact, that is, the degree to which such controls may affect the reliability of its own financial reporting, as well as that of its consolidated subsidiaries and equity-method affiliates. Materiality was established by taking into account both qualitative and quantitative impact. Based on the results of its assessment of company-level controls, the Company rationally determined the scope of evaluation for process-level controls. Those consolidated subsidiaries and equity-method affiliates deemed to have an insignificant qualitative and/or quantitative impact on financial reporting were not included in the scope of assessment of company-level internal controls.

Business units whose net sales reached approximately two-thirds of consolidated net sales for previous year were selected as "significant business units". The selection took into account changes in the scope of consolidation in the fiscal year ended December 31, 2022, as well as financial and qualitative risks. The assessment at significant business units encompassed business processes relevant to net sales, accounts receivable–trade, accounts payable–trade, inventories, and manufacturing facilities. In addition, regardless of the selection of significant business units, certain business processes related to a high likelihood of leading to material misstatement, and/or key accounts involving estimates and management's judgement were also identified as being highly material and were included in the scope of assessment.

3. Results of the Assessment

Based on the above assessment, the Company concluded that as of December 31, 2022, the Company's internal controls over financial reporting were effective.

4 Supplementary Notes

Not applicable.

5 Special Notes

Not applicable.