

To Shareholders

We would like to express our appreciation for your ongoing support of our business activities.

We also extend our deepest sympathies to all those who have contracted COVID-19 and their families and our prayers for their speedy recovery.

In April 2022, Daiichi Kigenso Kagaku Kogyo Co., Ltd. entered its 67th year of operation since it was founded in 1956. This accomplishment has been made possible by the support of our shareholders, for which we are extremely grateful.

Since our foundation, our management philosophy has been to pursue “three kinds of worth,” starting with “a continuous supply of valuable products for society,” along with management policies of strict adherence to the principles of prioritizing customers first and fulfilling social responsibilities, all of which have underpinned the Company’s consistent growth. Today, the Company has grown into a top manufacturer of zirconium compounds. The Group has been working on the medium-term business plan “DK-One Project,” since the fiscal year ended March 2014, to solidify our position as the top manufacturer of zirconium compounds and build a lively work environment for employees. With today’s global challenge of a clean and reliably supply of electricity to counteract global warming, the business environment surrounding the Company has changed significantly, such as the acceleration of the electrification of automobiles. So that our officers and employees can respond to these circumstances as a united force, we have ended the “DK-One Project” a year early and launched our next Medium-Term Management Plan, “DK-One Next”, from May 2022. Even in times of such turbulent change, we will continue to create new businesses based on our unchanging management philosophy and vision, so that we may overcome the major changes in the environment that will occur in the next ten years. Incoming Representative Director Hiroshi Kokubu played a central role in the formulation of “DK-One Next”. I hope that shareholders and stakeholders will extend their support and cooperation to help bring about the success of this plan, which is packed full of Mr. Kokubu’s conviction and passionate intentions.

Looking ahead, by steadily forging ahead with the execution of our global management across the Group, including our overseas affiliates, we will continue to contribute to the development of the global economy and society in the 21st Century and to solutions to global environmental issues through our supply of zirconium compounds.

We appreciate the continued understanding and support of our shareholders.

Tsuyoshi Inoue, President, Representative Director

Tsuyoshi Inoue
Representative Director, Member of the Board;
President, Executive Officer

Management Philosophy

To pursue a continuous supply of valuable products for society, we need to utilize the hands of individuals who live a fulfilling life. In order to live a fulfilling life, we need to create a rewarding workplace - a place where we spend a significant part of our lives.

Note: This document has been translated from a part of the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail. The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.

(Security Code 4082)
June 2, 2022

To Shareholders with Voting Rights:

Tsuyoshi Inoue
Representative Director, Member of the
Board; President, Executive Officer
Daiichi Kigenso Kagaku Kogyo Co., Ltd.
4-4-9, Kitahama, Chuo-ku, Osaka

**NOTICE OF
THE 66TH ANNUAL GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders:

We would like to express our appreciation for your continued support and patronage.

Please be informed that the 66th Annual General Meeting of Shareholders of Daiichi Kigenso Kagaku Kogyo Co., Ltd. (the “Company”) will be held as described below.

Instead of attending the meeting, you can exercise your voting rights in writing or via electromagnetic means (such as the Internet). Please review the attached Reference Documents for the General Meeting of Shareholders, and exercise your voting rights by following the Guide to Exercising Voting Rights on page 4 by 5:30 p.m. on Wednesday, June 22, 2022, Japan time.

1. Date and Time: Thursday, June 23, 2022 at 10:00 a.m. Japan time (reception starts at 9:30 a.m.)

2. Place: 1-20 Oyodo-Naka 1-Chome, Kita-ku, Osaka
The Westin Osaka (banquet room Karin on the 4th floor)
(Please refer to the “Access to the Venue of General Meeting of Shareholders”
attached at the end of this document.)

3. Meeting Agenda:

- Matters to be reported:**
1. The Business Report, Consolidated Financial Statements for the Company’s 66th Fiscal Year (April 1, 2021 - March 31, 2022) and results of audits by the Accounting Auditor and the Audit & Supervisory Board of the Consolidated Financial Statements
 2. Non-consolidated Financial Statements for the Company’s 66th Fiscal Year (April 1, 2021 - March 31, 2022)

Proposals to be resolved:

- Proposal 1:** Partial Amendments to the Articles of Incorporation
Proposal 2: Election of Six Directors
Proposal 3: Election of One Substitute Audit & Supervisory Board Member
Proposal 4: Election of Accounting Auditor

After the 66th Annual General Meeting of Shareholders, the Company will explain about the new medium-term business plan “DK-One Next,” which will commence in the fiscal year ending March 2023. We hope that shareholders attending the Annual General Meeting of Shareholders will take the time to attend this briefing.

Information on the 66th Annual General Meeting of Shareholders

For the 66th Annual General Meeting of Shareholders, the Company will take the measures described below in order to prevent the spread of the novel coronavirus (COVID-19), and kindly requests the understanding and cooperation of shareholders

- We will place alcohol disinfectant sprays at multiple locations including the vicinity of the entrance of the venue. We kindly ask you to sanitize your hands using them before you enter the venue, wear masks at all times, and maintain sufficient social distance.
- Operating staff members at the General Meeting of Shareholders will be wearing face masks during the event.
- If you feel ill or get sick at the venue, please give notice to reception staff.
- Voting in writing or via electromagnetic means (such as the Internet) ahead of time is also available, which you may wish to consider using.

Should any significant change be made to the operation of the Meeting depending on the pandemic situation going forward, we will make an announcement on the following website:
<https://www.dkkk.co.jp/> (Japanese only)

We apologize for any inconvenience this may cause our shareholders, and we greatly appreciate your understanding and cooperation.

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- Should the Reference Documents for the General Meeting of Shareholders, the Business Report, Consolidated Financial Statements, or Non-consolidated Financial Statements require revisions, the revised versions will be posted on the Company's website (<https://www.dkkk.co.jp/>).
 - The Company, pursuant to the provisions of applicable laws and regulations and Article 13 of the Articles of Incorporation of the Company, has posted the following documents that should be provided in conjunction with this notice on the website of the Company (<https://www.dkkk.co.jp/>).
 - (1) Consolidated Statements of Changes in Net Assets and Notes to Consolidated Financial Statements in the Consolidated Financial Statements.
 - (2) Non-consolidated Statements of Changes in Net Assets and Notes to Non-consolidated Financial Statements in the Non-consolidated Financial Statements.

The documents listed in (1) and (2) above are part of the Consolidated Financial Statements and Non-consolidated Financial Statements that were audited by Audit & Supervisory Board Member and the Accounting Auditor to prepare the respective audit reports.

Guide for Shareholders Who Wish to Ask Questions

The Company will accept questions in advance through one of the following methods.

Of the questions received, those that we believe will be of great interest to shareholders will be discussed at the General Meeting of Shareholders.

Please access the dedicated question website from the URL or QR Code, and fill in the “Inquiry Form.”

URL: <https://q.srdb.jp/4082/>

QR Code:

Period for Pre-questions: **Thursday, June 2, 2022 to Wednesday, June 15, 2022, by 5:30 p.m. (Japan time)**

*Please note that we will not respond to individual inquiries received in advance.

*Questions that could not be addressed at the General Meeting of Shareholders will be used for future reference.

*Any costs arising from accessing the question website (Internet connection fees, telecommunication fees, etc.) shall be the responsibility of shareholders.

Guide to Exercising Voting Rights

Exercising voting rights by attending the Meeting in person

Please submit the enclosed Voting Rights Exercise Form at the reception desk.

(Reception will be opened at 9:30 a.m.)

Please also bring this notice with you on the day.

Please be advised that persons other than shareholders (e.g., a proxy who is not a shareholder, non-shareholder accompanying a shareholder) are not allowed to attend the General Meeting of Shareholders.

Exercising voting rights via the Internet

Please access the Voting Right Exercise Website designated by the Company and indicate your vote for or against the proposals **by 5:30 p.m. on Wednesday, June 22, 2022 (Japan time)**.

Please refer “Guide to Exercising Voting Rights via the Internet” in the Japanese version of this document.

Exercising voting rights in writing

Please indicate your vote for or against the proposals on the enclosed Voting Rights Exercise Form, and send the Form back so that it will be received **no later than 5:30 p.m. on Wednesday, June 22, 2022 (Japan time)**.

* For multiple exercise of voting rights:

- (1) If voting rights are exercised both via the Internet and in writing, only the exercise via the Internet shall be treated as valid.
- (2) If voting rights are exercised multiple times via the Internet, the last exercise will be treated as valid. If voting rights are exercised more than once on your computer, smartphone etc., the last exercise will be treated as valid.

Reference Documents for the General Meeting of Shareholders

Proposals and References

Proposal 1: Partial Amendments to the Articles of Incorporation

1. Reasons for the amendments

As the system for electronic provision of materials for general meetings of shareholders stipulated in the proviso of Article 1 of the supplementary provisions of the “Act Partially Amending the Companies Act” (Act No. 70 of 2019) will be enforced on September 1, 2022, the Company proposes establishing provisions so that information contained in the reference materials for the general meeting of shareholders, etc. shall be provided electronically, and may limit the scope of matters to be included in the paper copy to be sent to shareholders who have requested it.

Further, the provisions related to the Internet disclosure and deemed provision of the reference materials for the general meeting of shareholders, etc., will become unnecessary and will therefore be deleted, and in line with the above changes of the provisions, supplementary provisions related to the effective date, etc., shall be established.

2. Details of the amendments

Details of the amendments are as follows:

(Amended parts are underlined.)

Current Articles of Incorporation	Proposed amendments
<p>Chapter III General Meeting of Shareholders <u>(Internet Disclosure and Deemed Provision of Reference Materials for the General Meeting of Shareholders, Etc.)</u> Article 13. <u>The Company may, when convening a general meeting of shareholders, deem that it has provided information to shareholders pertaining to matters to be described or indicated in the reference materials for the general meeting of shareholders, business report, non-consolidated financial statements, and consolidated financial statements, by disclosing such information through the internet in accordance with the provisions provided in the Ordinance of the Ministry of Justice.</u> (Newly established)</p> <p>(Newly established)</p>	<p>Chapter III General Meeting of Shareholders (Deleted)</p> <p><u>(Measures for Electronic Provision, Etc.)</u> Article 13. <u>The Company shall, when convening a general meeting of shareholders, provide information contained in the reference materials for the general meeting of shareholders, etc. electronically.</u> <u>2. Among the matters to be provided electronically, the Company may choose not to include all or part of the matters stipulated in the Ordinance of the Ministry of Justice in the paper copy to be sent to shareholders who have requested it by the record date for voting rights.</u> <u>Supplementary provisions</u> <u>(Transitional Measures Concerning Electronic Provision)</u> Article 1.</p>

Current Articles of Incorporation	Proposed amendments
	<p><u>The deletion of Article 13 (Internet Disclosure and Deemed Provision of Reference Materials for the General Meeting of Shareholders, Etc.) of the current Articles of Incorporation and new establishment of the proposed Article 13 (Measures for Electronic Provision, Etc.) shall come into effect on the date of September 1, 2022.</u></p> <p><u>2. Notwithstanding the provisions of the preceding paragraph, Article 13 (Internet Disclosure and Deemed Provision of Reference Materials for the General Meeting of Shareholders, Etc.) of the current Articles of Incorporation shall remain in force with respect to a general meeting of shareholders to be held on a date within the end of February 2023.</u></p> <p><u>3. These supplementary provisions shall be deleted after becoming effective on March 1, 2023 or the lapse of three months from the date of the general meeting of shareholders set forth in the preceding paragraph, whichever is later.</u></p>

Proposal 2: Election of Six Directors

The terms of office of all of the six Directors will expire at the conclusion of this General Meeting of Shareholders. Accordingly, the election of six Directors is proposed.

The candidates are as follows:

No.		Name	Current positions, responsibilities and significant concurrent positions
1	Reappointment	Tsuyoshi Inoue	Representative Director, Member of the Board; President, Executive Officer
2	Reappointment	Kimio Ouchi	Director, Member of the Board; Managing Executive Officer Representative Director, I.D.U. Co., Ltd. Representative Director, DKK Logistics Corporation
3	Reappointment	Hiroshi Kokubu	Director, Member of the Board; Managing Executive Officer Vice President, Shandong Guangyin DKK New Materials Co., Ltd. Vice President, Shandong Guangyin DKK Environment Technology Co., Ltd. President, DKK (Shanghai) Materials Trading Co., Ltd.
4	Reappointment Outside Independent	Akira Okumura	Outside Director, Member of the Board Independent Officer
5	New appointment Outside Independent	Toshiyuki Umehara	
6	New appointment Outside Independent	Junichi Tanaka	

No.	Name (Date of birth)	Past experience, positions, responsibilities and significant concurrent positions		Number of shares of the Company held
1	<p>Tsuyoshi Inoue (May 27, 1960)</p> <p>Term of office as Director: 15 years (at close of this meeting)</p> <p>Attendance at Board of Directors meetings: 13/13 (100%)</p>	<p>Apr. 1986 Sep. 2000 Mar. 2005 June 2007 June 2008 Mar. 2010 June 2010 June 2020</p>	<p>Joined Sumitomo Electric Industries, Ltd. Joined the Company General Manager, Equipment Division Director, Member of the Board; General Manager, Equipment Division Director, Member of the Board; General Manager, Corporate Planning Office Executive Vice President, Member of the Board President Representative Director, Member of the Board; President, Executive Officer (to present)</p>	791,093
<p>[Reason for nomination as candidate for Director] Tsuyoshi Inoue has been involved in the management of the Group as President of the Company since June 2010. Although the financial performance of the Group temporarily slowed down in the difficult operating environment such as the so-called rare earth crisis during this period, he has played a central role in promoting management structure reform and improvement of the revenue base, etc., and last year, as well as realizing the transition to the TSE Prime Market and the recovery of financial performance after its slump due to COVID-19, he played a role as a bridge between the medium-term business plan “DK-ONE Project” to the new medium-term business plan “DK-One Next.” We nominate Tsuyoshi Inoue as a Director, Member of the Board of the Company for re-election because we expect that he can realize the management philosophy of the Company and contribute to the sustained enhancement of corporate value of the Group by drawing on his extensive experience and track record.</p>				

No.	Name (Date of birth)	Past experience, positions, responsibilities and significant concurrent positions	Number of shares of the Company held
2	<p data-bbox="231 638 375 705">Kimio Ouchi (July 1, 1967)</p> <p data-bbox="191 728 414 918">Term of office as Director: 14 years (at close of this meeting) Attendance at Board of Directors meetings: 13/13 (100%)</p>	<p data-bbox="430 268 1292 1198"> Apr. 1992 Joined the Company Sep. 2006 Branch Manager (Osaka Sales Office), Sales and Marketing Division Apr. 2008 Director, Member of the Board, I. D. U. Co., Ltd. June 2008 Director, Member of the Board; General Manager, Sales and Marketing Division Apr. 2011 Representative Director, Member of the Board, I. D. U. Co., Ltd. (to present) Apr. 2013 Managing Director, Member of the Board; Responsible for Sales and Marketing Division, Technology Division, and Corporate Planning Division Sep. 2013 Director, Member of the Board, Suihua Shanghai Trading Co., Ltd. (currently DKK (Shanghai) Materials Trading Co., Ltd.) Apr. 2016 Managing Director, Member of the Board, General Manager, Research and Development Office; General Manager, Intellectual Property Management Office; Responsible for Technology Division and Corporate Planning Division Jul. 2017 Representative Director, Member of the Board, DKK Logistics Co., Ltd. (to present) Apr. 2018 Managing Director, Member of the Board; Responsible for Research and Development Office, Intellectual Property Management Office and Technology Division, the Company Apr. 2019 Managing Director, Member of the Board; Responsible for R&D Unit June 2020 Director, Member of the Board; Managing Executive Officer (to present) </p> <p data-bbox="422 1198 1189 1288"> [Significant concurrent positions] • Representative Director, Member of the Board, I. D. U. Co., Ltd. • Representative Director, Member of the Board, DKK Logistics Co., Ltd. </p>	74,223
<p data-bbox="191 1288 710 1321">[Reason for nomination as candidate for Director]</p> <p data-bbox="191 1321 1460 1556">Kimio Ouchi has outstanding knowledge and experience in the industry with many years of experience in the technology, sales and marketing divisions of the Company and their supervision, while concurrently serving as a representative director and a director at subsidiaries and affiliates in Japan and overseas. During the pandemic as well, he promoted the “Work Style Reform in Kigenso’s Way” operation reform project for a shift from paper media to electronic media and improvement in labor productivity company-wide and contributed to company-wide reform at an even faster pace than before the pandemic. We nominate Kimio Ouchi as a Director, Member of the Board of Directors of the Company for re-election because we expect that he can continue to play a significant part in broad division-making and such throughout the Group.</p>			

No.	Name (Date of birth)	Past experience, positions, responsibilities and significant concurrent positions	Number of shares of the Company held
3	<p>Hiroshi Kokubu (February 26, 1972)</p> <p>Term of office as Director: 9 years (at close of this meeting) Attendance at Board of Directors meetings: 13/13 (100%)</p>	<p>Apr. 1995 Joined the Sanwa Bank, Ltd. (currently the MUFG Bank, Ltd.)</p> <p>Oct. 2004 Joined the Company</p> <p>June 2009 Branch Manager (Tokyo sales Office), Sales and Marketing Division</p> <p>Mar. 2011 General Manager, Procurement Division</p> <p>June 2013 Director, Member of the Board; General Manager, Procurement Division</p> <p>Jul. 2014 Vice President, Shandong Guangyin DKK New Materials Co., Ltd. (to present)</p> <p>Jul. 2014 Vice President, Shandong Guangyin DKK Environment Technology Co., Ltd. (to present)</p> <p>Apr. 2016 Director, I.D.U. Co., Ltd.</p> <p>Apr. 2016 Director, Member of the Board; General Manager, Sales and Marketing Division and Responsible for Procurement Division, the Company</p> <p>Dec. 2017 President, DKK (Shanghai) Materials Trading Co., Ltd. (to present)</p> <p>Apr. 2019 Director, Member of the Board; General Manager, Operational Unit, the Company</p> <p>Apr. 2020 Managing Director, Member of the Board; General Manager, Operational Unit</p> <p>June 2020 Director, Member of the Board; Managing Executive Officer, General Manager, Operational Unit</p> <p>Apr. 2022 Director, Member of the Board; Managing Executive Officer (to present)</p> <p>[Significant concurrent positions]</p> <ul style="list-style-type: none"> • Vice President, Shandong Guangyin DKK New Materials Co., Ltd. • Vice President, Shandong Guangyin DKK Environment Technology Co., Ltd. • President, DKK (Shanghai) Materials Trading Co., Ltd. 	86,672
<p>[Reason for nomination as candidate for Director]</p> <p>Since joining the Company, Hiroshi Kokubu has been involved in the sales and procurement functions and has played a significant role in the sales expansion of the products of the Company and the stable procurement of raw materials at low prices, etc. Even after assuming the office of Director, he has been making efforts to ensure stable procurement of principal raw materials from overseas suppliers and to realize global business expansion, strengthening governance and relationships with stakeholders. Last year, he made efforts as the leader in the formulation of the next medium-term business plan, “DK-One Next,” which aims for the progressive continuation and realization of the Company’s “three types of worth” management philosophy and at becoming a “100-year company.” We nominate Hiroshi Kokubu as a Director, Member of the Board of Company for re-election because we believe that his strengths are needed to continue to realize the management philosophy of the Company, to contribute to the realization of “DK-One Next” while responding flexibly to the significant change in the external environment surrounding the Group, namely the electrification of automobiles. After he is elected as Director at the 66th Annual General Meeting of Shareholders, the Company plans for him to be selected as Representative Director of the Company at the Board of Directors meeting scheduled to be held on the same day.</p>			

No.	Name (Date of birth)	Past experience, positions, responsibilities and significant concurrent positions		Number of shares of the Company held
	Akira Okumura (October 26, 1948) Term of office as Director: 7 years (at close of this meeting) Attendance at Board of Directors meetings: 13/13 (100%)	Apr. 1973 Jan. 1998 Jul. 1999 Jan. 2011 Jul. 2012 June 2015	Joined BASF Dyes & Chemicals Co., Ltd. (currently BASF Japan Ltd.) Managing Director President, BASF INOAC Polyurethanes Ltd. President, N.E. CHEMCAT CORPORATION Advisor, INOAC CORPORATION Outside Director, Member of the Board, the Company (to present)	5,800
4	<p>[Reason for nomination as candidate for Outside Director and overview of expected roles] Akira Okumura is a candidate for Outside Director as provided by Article 2, Paragraph 3, Item 7 of the Ordinance for Enforcement of the Companies Act.</p> <p>Akira Okumura worked for (current) BASF Japan Ltd.—the Japanese subsidiary of general chemicals company BASF SE, which is headquartered in Germany—for many years including serving as a Managing Director. Subsequently, he served as a President of N.E. CHEMCAT CORPORATION. This means that his knowledge and career experience cover various fields not only in practical business in joint ventures but also in management. Since assuming the office of Outside Director, Member of the Board of the Company in 2015, he has been actively providing opinions and suggestions at Board of Directors meetings on verification of the appropriate management of the Group in general such as group business operations, and the realization of a function of monitoring the Board of Directors from an independent position and perspective, drawing on his extensive experience and broad insight accumulated over many years. In particular, in the legal area, he has provided supervision and advice regarding governance, risk management, compliance, and business regulations, and he has appropriately performed his roles including supervision over business execution as an Outside Director of the Company. Based on the above reasons, the Company believes that he can appropriately perform his duties as an Outside Director of the Company and nominates Akira Okumura as an Outside Director, Member of the Board of the Company for re-election.</p>			

No.	Name (Date of birth)	Past experience, positions, responsibilities and significant concurrent positions	Number of shares of the Company held
5	Toshiyuki Umehara (September 3, 1957)	Apr. 1984 Joined Nitto Denko Corporation June 2010 Vice President June 2015 Board Member, Executive Vice President, General Manager of Automotive Products Sector Apr. 2018 Board Member, Senior Executive Vice President, CTO, CIO, General Manager of Corporate Technology Sector June 2019 Representative Director, Senior Executive Vice President, CTO, General Manager of Corporate Technology Sector July 2020 Executive Director of National University Corporation Hokkaido University (current position) August 2020 Project Professor of Keio University (current position) June 2021 Outside Director, Fuji Oil Holdings Inc. [Significant concurrent positions] • Executive Director of National University Corporation Hokkaido University • Project Professor of Keio University	-
<p>[Reason for nomination as candidate for Outside Director and overview of expected roles] Toshiyuki Umehara is a candidate for Outside Director as set forth in Article 2, Paragraph 3, Item 7 of the Regulations for Enforcement of the Companies Act.</p> <p>At Nitto Denko Corporation, he worked for many years as an engineer and as a business director, contributing to the promotion of that company's business. Further, he promoted the implementation of technology-oriented management, which is a strength of Nitto Denko Corporation, as CTO and promoted the strengthening of the information area as CIO, and he possesses abundant experience and a high degree of insight in these areas. We believe that he will draw on his abundant experience and wide-ranging knowledge as a manager of a manufacturing company that deploys global business to contribute to the decision-making and supervisory functions of the Board of Directors in the promotion of the Company's business going forward.</p>			

No.	Name (Date of birth)	Past experience, positions, responsibilities and significant concurrent positions		Number of shares of the Company held
	Junichi Tanaka (January 2, 1957)	Apr. 1979 Jan. 2008 June 2013 June 2016	Joined Fukui Murata Manufacturing Co., Ltd. General Manager of Finance Department, Murata Manufacturing Co., Ltd. Standing Statutory Auditor Director, Audit and Supervisory Committee Member (Full-time, Chief of the Committee)	-
6	<p>[Reason for nomination as candidate for Outside Director and overview of expected roles] Junichi Tanaka is a candidate for Outside Director as set forth in Article 2, Paragraph 3, Item 7 of the Regulations for Enforcement of the Companies Act.</p> <p>He was engaged in accounting, finance, and other areas for many years at Murata Manufacturing Co., Ltd. and that company's Group companies in Europe and Asia. He served as General Manager of the Finance Department of Murata Manufacturing, and he had abundant operational experience, mainly in the finance field. Also, as a standing statutory auditor and as a director and audit and supervisory committee member, he worked on the strengthening of that company's audit structure, and he has abundant experience and a high degree of insight in corporate governance. The Company expects that he will draw on his experience and high degree of expertise in administration and operational systems overseas and as a standing statutory auditor and director, audit and supervisory committee member to supervise the Company's global management and Group control in the administrative divisions that support it, and that he will contribute to the strengthening of the supervisory function of the Company's operations, and nominates him as a candidate for Outside Director.</p>			

(Notes)

1. No conflict of interest exists between the Company and any of the above Director candidates.
2. The number of shares of the Company held does not include the number of shares held through the Officers Stock Ownership Plan.
3. Akira Okumura, Toshiyuki Umehara and Junichi Tanaka are candidates for Outside Director. Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the Company entered into an agreement with Akira Okumura to limit his liability for damages prescribed in Article 423, Paragraph 1 of the same Act. The amount of his respective total maximum liability for damages under the said agreement is the higher of 5,000,000 yen or the minimum liability amount prescribed in Article 425, Paragraph 1 of the same Act. The Company plans to continue the said agreement with Akira Okumura if he is reelected as proposed and the Company plans to enter into the said agreement with Toshiyuki Umehara and Junichi Tanaka if they are elected as proposed.
The Company has designated Akira Okumura as independent officer of the Company pursuant to the rules of the Tokyo Stock Exchange with appropriate filings of the designation with the Exchange, and plans to make the same filings for Toshiyuki Umehara and Junichi Tanaka.
4. The Company has concluded a directors and officers liability insurance contract with an insurance company as set forth in Article 430-3, Paragraph 1 of the Companies Act to cover statutory damages and litigation fees incurred by the insured. Each candidate will be insured under the insurance contract. The Company plans to retain the insurance contract with the same terms and conditions at the time of renewal.

(Reference) Criteria for Independence of Outside Officers

1. The Board of Directors of the Company recognizes that its Outside Directors*¹ or Outside Audit & Supervisory Board Members*² pursuant to the provisions of the Companies Act and the Regulation for Enforcement of the Companies Act (hereinafter collectively referred to as “Outside Officers”) are independent in cases where Outside Officers do not fall under any of the following:
 - (1) An executive*³ of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”);
 - (2) A counterparty to whom the Group is a major business client*⁴ or an executive thereof;
 - (3) A major business client of the Group*⁵ or an executive thereof;
 - (4) A major shareholder (i.e., shareholder whose direct or indirect holding of voting rights accounts for 10% or more of the total number of voting rights) of the Company or an executive thereof;
 - (5) An executive of an investee in which the Group is a large investor (i.e., investee whose voting rights held by the Company account for 10% or more of the total number of voting rights);
 - (6) A director (limited to a person who executes operations) or other executive of an organization that receives a donation or grant exceeding a certain amount (i.e., 10 million yen per year on average over the past three years or 30% of the annual total expenses of such organization, whichever is higher) from the Group;
 - (7) An executive of a financial institution or other major creditor that is indispensable for the Company in raising funds and depended upon by the Company to the extent that there is no substitute;
 - (8) An attorney, certified public accountant, certified tax accountant or a consultant who has received monetary or other property benefits in the amount of 10 million yen or more per year on average over the past three years other than officer compensation from the Group;
 - (9) A certified public accountant or an executive, partner or employee of an audit corporation serving as an accounting auditor or accounting advisor of the Company or its subsidiaries;
 - (10) An executive at another company in which an executive of the Group is currently serving or has served in the past three years as outside officer;
 - (11) A person who has fallen under (1) above in the past ten years;
 - (12) A person who has fallen under (2) through (10) above in the past three years; or
 - (13) A person who falls under (1) through (12) above who is a close relative, etc.*⁶ of an important executive.*⁷
2. Being an independent officer requires that the person essentially be free of risk of conflict of interest with ordinary shareholders of the Company as a whole at all times in circumstances other than the factors taken into consideration in (1) through (12) above.
3. Upon the election of an independent officer, the recommendation or consent of at least one independent Director or independent Audit & Supervisory Board Member must be obtained.

*1 “Outside Director” means “Outside Director” as defined in Article 2, item (xv) of the Companies Act.

*2 “Outside Audit & Supervisory Board Member” means “Outside Company Auditor” as defined in Article 2, item (xvi) of the Companies Act.

*3 “Executive” means “Executive” as defined in Article 2, paragraph (3), item (vi) of the Regulation for Enforcement of the Companies Act.

*4 “A counterparty to whom the Group is a major business client” means a party who received from the Group payments accounting for 2% or more of said party’s annual consolidated gross sales in the latest fiscal year.

*5 “A major business client of the Group” means a business client to whom the amount of sales of the Group to such business client in the latest fiscal year accounted for 2% or more of the Group’s consolidated net sales.

*6 “Close relative, etc.” means a relative within the second degree of kinship and an interested person who shares living expenses.

*7 “Important executive” means an executive director, person responsible for a division, or other people who execute important operations.

(Reference) Skill Matrix

The Company implements the basic policy of nominating candidates for Director mainly considering the balance of credentials and experience, diversity, etc. In addition to the procedure, this is set forth in “Rules for Officers.” Listed below is the skill matrix of each candidate for Director, as we consider these the most important for the future development of the Company: 1) New business development, 2) Global expansion, and 3) Strengthen financial base and governance. In addition, the knowledge and experience listed below shows only typical skills instead of all the knowledge and experience.

Position			Name	Business Management	Sales, Marketing	Research, Development	Production, Technology	Global Business	Finance, Accounting	Law, Risk Management
	Independent	Outside								
Representative Director, Member of the Board; President, Executive Officer			Hiroshi Kokubu	○	○			○		
Director, Member of the Board; Managing Executive Officer			Kimio Ouchi	○	○	○		○		
Director, Senior Advisor			Tsuyoshi Inoue	○			○			
Outside Director, Member of the Board	●	●	Akira Okumura	○	○			○		○
Outside Director, Member of the Board	●	●	Toshiyuki Umehara	○		○	○	○		
Outside Director, Member of the Board	●	●	Junichi Tanaka	○				○	○	○

(Note) The system is after the resolution of the 66th Annual General Meeting of Shareholder and Board of Directors held on the same day.

[Reference] List of Members of Board of Directors after Election (Plan)

	Name	Positions, responsibilities and significant concurrent positions at the Company
<u>Reappointment</u>	Hiroshi Kokubu	Representative Director, Member of the Board; President, Executive Officer
<u>Reappointment</u>	Kimio Ouchi	Director, Member of the Board; Managing Executive Officer Representative Director, I.D.U. Co., Ltd. Representative Director, DKK Logistics Corporation
<u>Reappointment</u>	Tsuyoshi Inoue	Director, Senior Advisor
<u>Reappointment</u>	Akira Okumura	Outside Director, Member of the Board Independent Officer
<u>New appointment</u>	Toshiyuki Umehara	Outside Director, Member of the Board Independent Officer
<u>New appointment</u>	Junichi Tanaka	Outside Director, Member of the Board Independent Officer

Proposal 3: Election of One Substitute Audit & Supervisory Board Member

In order for the Company to maintain uninterrupted auditing activities even in the event where the number of Audit & Supervisory Board Members fails to meet the quorum requirement, the Company proposes the election of Takao Mizuno as substitute Outside Audit & Supervisory Board Member.

This resolution may be canceled by the Board of Directors' resolution with the consent of Audit & Supervisory Board only before Takao Mizuno's assumption of office.

This Proposal has obtained the Audit & Supervisory Board's prior consent.

The candidate for substitute Audit & Supervisory Board Member is as follows:

Name (Date of birth)	Past experience, positions and significant concurrent positions	Number of shares of the Company held
Takao Mizuno (February 14, 1962)	Mar. 1987 Joined the Company Apr. 2012 General Manager, Quality Assurance Division Apr. 2013 General Manager, General Affairs Division Apr. 2019 Deputy General Manager, Administration Unit; Site Manager, Osaka Site Apr. 2020 Deputy General Manager, Administration Unit (to present)	22,100
[Reason for nomination as candidate for substitute Audit & Supervisory Board Member] Since joining the Company, Takao Mizuno has experienced technology divisions serving as General Manager of Production Management Center, and Assistant General Manager of Technology Division, having held managerial positions in management divisions including General Manager of Quality Assurance Division, General Manager of General Affairs Division, Deputy General Manager of Administration Unit, and Site Manager of Osaka Site. The Company considers that he has sufficient knowledge and experience in taking up the role of Audit & Supervisory Board Member of the Company, and thus nominates Takao Mizuno again as a candidate for substitute Audit & Supervisory Board Member.		

(Notes)

1. The number of shares of the Company held does not include the number of shares held through the Employee Stock Ownership Plan.
2. Takao Mizuno has been elected as a substitute Audit & Supervisory Board Member at the 65th Annual General Meeting of Shareholders.
3. No conflict of interest exists between the Company and the above candidate.
4. Should Takao Mizuno assume office as Audit & Supervisory Board Member, pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the Company plans to enter into an agreement with him to limit his liability for damages prescribed in Article 423, Paragraph 1 of the same Act. The amount of his respective total maximum liability for damages under the said agreement is the minimum liability amount prescribed in Article 425, Paragraph 1 of the same Act.
5. The Company has concluded a directors and officers liability insurance contract with an insurance company as set forth in Article 430-3, Paragraph 1 of the Companies Act to cover statutory damages and litigation fees incurred by the insured. Should Takao Mizuno assume office as Audit & Supervisory Board Member, he will be included among the insureds under this contract.

Proposal 4: Election of Accounting Auditor

Ernst & Young ShinNihon LLC, will retire as the Company’s Accounting Auditor at the conclusion of this General Meeting of Shareholders due to expiration of its term of office. This proposal was submitted based on the resolution of the Audit & Supervisory Board. Accordingly, the Company proposes the election of Deloitte Touche Tohmatsu LLC as Accounting Auditor of the Company.

Deloitte Touche Tohmatsu LLC has been selected as a candidate of Accounting Auditor as a result of comprehensive examination by the Audit & Supervisory Board of factors, that audit from a new viewpoint is required to change the Company and that there are also expectations of improving internal control, acceleration and rationalization of Accounting Audit, in addition to the consideration of the number of years for which the current Accounting Auditor has been the Company’s Accounting Auditor (first appointed in July 1, 2002). Deloitte Touche Tohmatsu LLC is well qualified to be the Accounting Auditor of the Company.

The candidate for the Accounting Auditor is as follows.

(As of February 28, 2022)

Name	Deloitte Touche Tohmatsu LLC	
Address of Main Office	Marunouchi Nijubashi Building 3-2-3 Marunouchi, Chiyoda-ku Tokyo, Japan	
History	May 1968	Tohmatsu Awoki & Co. established
	May 1975	Joined Touche Ross International (TRI) (currently Deloitte Touche Tohmatsu Limited (DTTL)) alliance
	Feb. 1990	Changed name to Tohmatsu & Co.
	Jul. 2009	Transitioned to a limited liability company and changed name to Deloitte Touche Tohmatsu LLC
Summary	Capital	¥1,113 million
	Partners (CPAs)	489 persons
	Non-CPA Partners	59 persons
	Staff CPAs	2,630 persons
	Successful CPA Exam Candidates, etc. (including Junior Accountants)	1,180 persons
	Other Specialists	2,738 persons
	Other Staff	88 persons
	Total	7,184 persons

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Business Report

(April 1, 2021 - March 31, 2022)

1. Overview of the Corporate Group

(1) Business Progress and Results

In the fiscal year ended March 31, 2022, the global economy has taken a long time to recover to the levels before COVID-19 due to the acceleration of inflation. Amid the economic and social turmoil caused by the spread of COVID-19, such as cuts to automotive production due to shortages of semiconductor chips and other parts supply chain disruptions caused by tightness in marine logistics. Those conditions were compounded by the impact of economic sanctions relating to the Russian invasion of Ukraine and constraints on transportation routes. On the other hand, despite there still being concerns about new variants of COVID-19, robust personal consumption drove the business and markets, which were looking ahead to times during and after the pandemic, and moves to try to sustain economic activity with necessary countermeasures were in progress mainly in Europe and the United States.

In the automotive industry, which is the Group's major customer, global sales volumes of light vehicles in 2021 did not pre-pandemic levels, despite increasing 5% compared to the previous year. Each automaker was forced to cut automotive production compared to their plans due to the shortage of semiconductors. Meanwhile, the top auto-makers in the global market accelerated the shift to electric vehicles, releasing new models of electric vehicles continuously based on a highlighted awareness of the need to reduce greenhouse gas emissions.

In the Group, materials used in in-vehicle components, dental materials, and structural members for industrial use recovered to higher than pre-pandemic levels, with the markets in Europe and the United States, where the economy is progressively returning to normal, have driven the recovery in demand.

As a result of the above, net sales for the fiscal year under review was 29,365 million yen (up 25.1% from the previous year and 0.6% over the forecast of 29,200 million yen) due mainly to the effects of an 18.2% year-on-year increase in sales volumes and increases in sales prices resulting from sharp rises in raw material prices.

Operating profit was 3,768 million yen (up 87.0% from the previous year and 25.6% over the forecast of 3,000 million yen) due mainly to sales volumes increases and production efficiency improvements. Ordinary profit was 6,000 million yen (up 181.5% from the previous year and 57.9% over the performance forecast of 3,800 million yen due mainly to the recording of foreign exchange gains at the Vietnamese subsidiary. Profit attributable to owners of parent was 1,849 million yen (up 49.7% from the previous year, achievement rate was 66.1%, but 33.9% short of the forecast of 30 million yen) due to the recording of an extraordinary loss relating to the investment in a mineral business company in Vietnam.

Financial Highlights of the 66th term (Fiscal Year Ended March 31, 2022 (Consolidated))

	Results	Year-on-year Change
Net sales	29.3 billion yen	25.1%
Operating profit	3.7 billion yen	87.0%
Operating profit margin	12.8%	4.2%
Profit before income taxes	3.5 billion yen	81.1%
Profit attributable to owners of parent	1.8 billion yen	49.7%
Basic earnings per share	76.15 yen	49.6%

Notes: 1. The Company plans to issue year-end dividends of 10 yen per share for the fiscal year ended March 31, 2022

2. The year-on-year change in operating profit margin of 4.2% is the difference from the previous fiscal year's result of 8.6%.

Catalysts

Major Applications

Environmental Catalysts

- Automotive exhaust gas purification catalysts
- NOx removal catalysts

Industrial Catalysts

- Petroleum refining catalysts
- Reforming/shift/partial oxidation catalysts

Sales of the Group's core product, automotive exhaust gas purification catalysts, continued to exceed sales of the level before COVID-19 as a result of the sharp recovery in automobile sales volumes that continued from the second half of the previous year and the effect of an increase in demand for the Company's products due to stricter environmental regulations. However, through the second half of the fiscal year under review, the impact of cuts in automotive production due to the shortage of semiconductor chips and other parts became marked, and the recovery in demand slowed.

As a result of the above, net sales of catalyst applications in the consolidated fiscal year under review was 17,670 million yen (up 21.1% compared with the previous fiscal year and 0.5% over the forecast of 17,580 million yen).

Electronic materials and oxygen sensors

Major Applications

Electronic materials

- Ceramic capacitors
- Piezoelectric elements

Oxygen sensors

- Oxygen sensors for automobiles
- Oxygen sensors for steelmaking

Optical applications

- Lens coatings
- Lens materials
- Antireflective coatings

Sales of electronic materials were affected by production adjustments of final products. However, in medical equipment, consumer electronics, and communication devices, net sales were higher in electronic components, such as Piezoelectric elements, MLCC, etc., due to the recovery of automotive sales volume and the progress of electrification. Sales of secondary battery materials significantly exceeded the previous year, when sales declined due to the impact of the diversification of in-vehicle batteries. This year's increase was the result of growing demand in line with the growth in the automotive market, as well as new adoption on schedule.

Sales value for oxygen sensor materials increased as a result of capturing demand resulting from the recovery of automobile sales volumes.

As a result of the above, net sales of electronic materials and oxygen sensor applications in the consolidated fiscal year under review was 2,879 million yen (up 14.1% compared with the previous fiscal year, but 2.1% short of the forecast of 2,940 million yen).

Fine ceramics

Major Applications

Structural materials

- Cutting tools for household use (kitchen knives, scissors)
- Cutting tools for industrial use (paper converting machines, textile machines)
- Grinding media
- Ferrules
- Dental materials
- Bearings

Fuel cells

- Solid electrolytes for fuel cells

Sales volumes of fuel cell materials, which are expected to become the Group's next-generation core product, were firm due to the continuing market growth by individual countries' measures to promote sustainable energy.

Dental materials and structural members for industrial use exceeded pre-pandemic levels as major developed countries whose economies are returning to normal drove demand.

Sales of kitchen ceramics materials rose due to the expansion of sales channels of the final product, although it will take time for demand from inbound visitors to recover.

As a result of the above, net sales of fine ceramics applications in the consolidated fiscal year under review was 3,450 million yen (up 39.6% compared with the previous fiscal year, but 5.5% short of the forecast of 3,650 million yen).

Refractories and brake materials

Major Applications

Refractories

- Continuous-casting nozzles
- Setters for firing electronic parts

Brake materials

- Automobile brake pads

Ceramic pigments

- Pigments for ceramics

While crude steel production is trending toward recovery in Japan, the downturn in production of crude steel in China led to an oversupply of refractory materials, so sales did not reach pre-pandemic levels.

Sales of brake materials increased due to the price surge of raw materials, in addition to the recovery of automotive sales volumes.

As a result of the above, net sales of refractories and brake materials applications in the consolidated fiscal year under review was 3,366 million yen (up 48.6% compared with the previous fiscal year and 11.1% over the forecast of 3,030 million yen).

Other

Major Applications

Cesium flux

- Flux for aluminum brazing

Other

- High-quality paper coatings
- Adsorbents
- Paint drying materials

Despite firm sales for medical equipment applications, and increase in sales of cesium flux used in the brazing of aluminum pipes for household appliance and automobile applications resulting from the recovery of automobile sales volumes, sales of cesium compounds stagnated due to the impact of the decline in production of final products caused by the shortages of semiconductor chips and other components, failing to reach pre-pandemic levels.

Sales of products other than cesium compounds and cesium flux increased due to capturing demand from the normalization of economic activity.

As a result of the above, net sales of other applications in the consolidated fiscal year under review was 1,998 million yen (up 23.6% year-on-year and 0.1% short of the forecast of 2,000 million yen).

*Investment in Vietnamese Mine

In June 2016, the Company commenced the manufacture and sale of zirconium oxychloride using zirconium ore produced in Vietnam. We began considering investments to increase production in Vietnam in December 2016, but at the time, there was no company in Vietnam that produced zirconium ore in the volumes that the Company required. Under these circumstances, Solid Success International Limited (“SSI”) had been proceeding with investment in and the acquisition of Duong Lam Joint Stock Company (“DL”), a Vietnamese mining company since 2012, and DL was planning to increase production of zirconium ore to satisfy the Company’s required volumes. With the objective of the long-term stable procurement of zirconium ore at low prices, after performing due diligence, the Company paid funds to SSI’s shareholders by January 2019 for the acquisition of SSI’s shares to supply funds to SSI, which was undertaking procedures for the acquisition of DL shares, investment for increasing production, and acquiring ore mining rights. However, legal proceedings concerning the transfer of DL shares were instigated in June 2019 between an affiliated company of SSI and DL’s shareholders, and this dispute has not yet been resolved, stalling the equity investment process. In addition, DL’s production activities have stalled due to an inability to procure ore resulting from a delay in their own mining, and the delivery of zirconium ore under the purchase agreement concluded between the Company’s subsidiary in Vietnam and DL was stalled. The Company had been negotiating a settlement with the aims of progressing SSI’s acquisition of DL and the resumption of DL’s business activities, but with no prospects for such a settlement, the Company cancelled the share transfer agreement concluded with SSI’s shareholders. In addition, with no outlook for the resumption of DL’s business activities, it also cancelled the aforementioned purchase agreement for zirconium ore.

In response to this situation, as a result of the expansion of scale of other companies that produce zirconium ore in Vietnam and efforts to build relationships with suppliers other than DL, the Company anticipates being able to procure zirconium ore in the volumes it requires from sources other than DL. Because the market price of zirconium oxychloride has increased, the Company does not anticipate any impact from the investments currently being made in Vietnam. Further, on the assumption that DL’s business activities would continue, the Company had acquired a security interest in all DL shares with the aim of guaranteeing the refunding of SSI’s share acquisition funds, but due to the legal proceedings concerning the transfer of DL’s shares and the stalling of DL’s business activities, it has become difficult to recoup the funds contributed to SSI shareholders and to DL through DL’s business activities and by the exercise of the security interest places on DL’s shares. However, the Company will endeavor to recover those funds to the maximum extent possible by exercising its right to demand restitution from SSI shareholders and DL.

(2) Capital Expenditures

The total amount of capital expenditures conducted in the fiscal year under review was 3,484 million yen. The main expenditures were as follows:

- | | |
|--|-----------------|
| · Redevelopment of Osaka Site | 981 million yen |
| · Construction of new factory at Vietnamese subsidiary | 992 million yen |

(3) Financing

In the fiscal year under review, the Group procured 1,400 million yen in short-term borrowings and 2,341 million yen in long-term borrowings, and repaid 3,150 million yen in long-term borrowings.

(4) Issues to Be Addressed

Initiatives by individual countries toward achieving global carbon neutrality are accelerating, and sales volumes of internal combustion engine vehicles are not likely to reach the levels assumed by the Group.

Amid such major changes in the business environment, the Company will promote the creation of new business, reforms of its revenue structure, the realization of innovative manufacturing, the implementation of organization-building that will continue to produce results, the further cultivation of the Kigenso way, and sustainability initiatives in its efforts to respond to changes in the environment.

Under these circumstances, we will address the following issues in our efforts toward further business expansion and the strengthening of our earnings foundations.

1) Increase of net sales and strengthening of new product and application development activities

In response to the shift toward electric vehicles in the automotive industry, in addition to increasing our market share of existing automotive exhaust gas purification catalysts, we will proceed with the development of applications such as vehicle secondary batteries and fuel cells. Further, we will explore new product development and new applications for zirconium that are not confined by existing frameworks, as well as expanding demand in areas that taking advantage of its many different properties, such as fine ceramics.

2) Strengthening of Group management, including overseas business locations

The Group has built good, long-lasting relationships with our customers by meeting their diverse needs with our integrated production system that starts from the ore and our stable supply systems that take advantage of our overseas sales subsidiaries. Going forward, for the Group to further solidify these business foundations, we will strive for the advancement of our Group management, by proceeding with the rebuilding of our logistics locations and reviewing our logistics methods, as well as strengthening the organic connections between our overseas locations and the individual divisions in Japan.

3) Enhancement of profitability and asset efficiency

We will enhance our profitability and asset efficiency to continue to maintain the Group's stable management foundations over the medium to long term. To enhance profitability and asset efficiency, we will further promote the improvement and reform of production processes, and work on the restructuring of operations using IT systems, Group-wide inventory asset management, the efficient operation of funds management, and the optimization of asset balances.

4) Strengthening of supply chain for procurement of zirconium compounds

To address the current situation, in which production of zirconium oxychloride, a zirconium intermediate, is skewed toward China, we have established a site for the production of zirconium oxychloride using zirconium ore mined in Vietnam to strengthen our supply chain. The stable procurement of zirconium ore is a key challenge in the Group's efforts to strengthen the supply chain for zirconium compounds, and it had been making an investment aimed at achieving that (*). However, with the cancellation of the contracts concerning that investment and other factors, it recorded a loss in the financial results for the year ended March 31, 2022. On the other hand, with the expansion of scale of the mineral business in Vietnam, we now have prospects for being able the procurement of zirconium ore required by the Group in the short term. We will continue to engage in the stable procurement of zirconium ore in Vietnam over the medium to long term based on the investigations and deliberations we have conducted to date.

* Refer to "Investment in Vietnamese Mine" on Page 22 for details.

5) Building foundations where our diverse people can shine

For the Group to continue to grow, it is essential that it secure and develop diverse human resources who are able to generate new ideas and take on the task of global expansion. We will promote the active participation of women, the internationalization of our workforce, and the active promotion of young personnel. In addition to developing the environment where these kinds of people can shine, we will promote the securing and development of human resources while elevating connections within the Group, including personnel exchanges between our business locations in Japan and our associated companies overseas.

6) Response to reduce greenhouse gas emissions

The reduction of greenhouse gas emissions to counter climate change is a global challenge, and we believe that it is a challenge that the Group should address seriously. While steadily engaging in ongoing activities to reduce energy consumption, we will identify emissions across the entire supply chain and pursue initiatives to reduce them to reduce our greenhouse gas emissions over the medium to long term.

(5) Trends in Assets and Income

(In millions of yen, unless otherwise specified.)

Item	The 63rd fiscal year ended March 31, 2019	The 64th fiscal year ended March 31, 2020	The 65th fiscal year ended March 31, 2021	The 66th fiscal year ended March 31, 2022 (Fiscal year under review)
Net sales	27,483	26,518	23,465	29,365
Operating profit	4,311	3,102	2,131	6,000
Profit attributable to owners of parent	3,093	2,348	1,235	1,849
Basic earnings per share (yen)	127.90	96.90	50.91	76.15
Total assets	45,768	51,201	56,256	58,043
Total net assets	27,265	29,531	30,784	31,816

Notes: 1. Basic earnings per share is calculated based on the average number of shares outstanding (excluding treasury shares) during the fiscal year.

2. The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No.29, March 30, 2018) and “Implementation Guidance on Revenue Recognition” (ASBJ Guidance No.30, March 30, 2018) from the beginning of the reporting period.

(6) Material Subsidiaries

Company name	Capital or Equity	Ratio of voting rights	Principle business
Vietnam Rare Elements Chemical Joint Stock Company	VND 808,618 million	99.99%	Manufacture and sale of zirconium oxychloride
DKK (Shanghai) Materials Trading Co., Ltd.	CNY 4.2 million	66.67%	Sale of zirconium compounds
DKK Thai Materials Trading Co., Ltd.	THB 10 million	99.99%	Sale of zirconium compounds, etc.
DKK America Materials, Inc.	USD 1 million	100.00%	Sale of zirconium compounds, etc.
DKK Logistics Corporation	JPY 50 million	51.00%	Warehousing, general cargo trucking

(7) Principal Business (as of March 31, 2022)

The Group manufactures and sells zirconium, cesium, and rare earth compounds

(8) Principal Business Locations (as of March 31, 2022)

Business location name	Location		
Head Office	Osaka-shi, Osaka		
Sales offices and distributors			
Business location name	Location		
Tokyo Office	Chiyoda-ku, Tokyo		
DKK (Shanghai) Materials Trading Co., Ltd.	Shanghai, People's Republic of China		
DKK Thai Materials Trading Co., Ltd.	Bangkok, Thailand		
DKK America Materials, Inc.	Michigan, USA		
Factories			
Business location name	Location		
Osaka Site	Osaka-shi, Osaka		
Gotsu Site	Gotsu-shi, Shimane		
Fukui Site	Fukui-shi, Fukui		
Vietnam Rare Elements Chemical Joint Stock Company	Bà Rịa-Vũng Tàu Province, Vietnam		
Associated Companies			
Company name	Location	Capital or Equity	Business purposes
I.D.U. Co., Ltd.	Kochi-shi, Kochi	JPY 50 million	Manufacture of electromelting stabilized zirconium oxide
Shandong Guangyin DKK New Materials Co., Ltd.	Shandong, China	CNY 98.00 million	Production and sale of materials for fine ceramics
Shandong Guangyin DKK Environment Technology Co., Ltd.	Shandong, China	CNY 27.86 million	Collection, production and sale of rare metals

(9) Employees (as of March 31, 2022)

1) Employees of the Corporate Group

Number of employees	Year-on-year increase (decrease)
533	+31

Notes: 1. The number of employees is the number of people employed in the Group.

2. The number of employees does not include 34 contract workers, 17 part-timers, and 50 temporarily dispatched workers.

2) Employees of the Company

	Number of employees	Year-on-year increase (decrease)	Average age	Average years of service
Male	382	+13	38.5	14.3 years
Female	43	+2	38.2	11.6 years
Total or Average	425	+15	38.4	14.0 years

Notes: 1. The number of employees is the number of people employed in the Company.

2. The number of employees does not include 34 contract workers, 17 part-timers, and 50 temporarily dispatched workers.

3. 14 people on temporary assignment to associated companies are not included.

(10) Major Lenders (as of March 31, 2022)

Lender	Borrowing outstanding (million yen)
MUFG Bank, Ltd.	5,274
THE SAN-IN GODO BANK, LTD.	3,450
Sumitomo Mitsui Banking Corporation	3,200
Development Bank of Japan Inc.	2,461
The Fukui Bank, Ltd.	2,220
Resona Bank, Limited	2,112
Japan Bank for International Cooperation	1,468
Sumitomo Mitsui Trust Bank, Limited	1,140
Nippon Life Insurance Company	615

(11) Other important matters concerning the current state of the Group
Not applicable

2. Shares of the Company (as of March 31, 2022)

- | | | |
|-----|--|-------------------|
| (1) | Total number of shares authorized to be issued | 97,600,000 shares |
| (2) | Total number of shares outstanding | 24,400,000 shares |
| (3) | Number of shareholders | 10,727 persons |
| (4) | Major shareholders (top ten shareholders) | |

Shareholder's name	Number of shares held (shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	2,897,300	11.93
Custody Bank of Japan, Ltd. (Trust account)	2,424,800	9.98
Katsuhiko Kokubu	1,210,000	4.98
Daiichi Kigenso Kagaku Kogyo CO., Ltd. Employees Stock Ownership Plan	1,163,000	4.79
Iwatani Corporation	861,000	3.54
Junko Inoue	810,000	3.33
Tsuyoshi Inoue	791,093	3.26
Tomoyuki Kokubu	687,700	2.83
Kiyoko Nakamura	420,000	1.73
Tadashi Terada	380,947	1.57

Note: Shareholding ratio has been calculated after exclusion of treasury shares (108,889 shares) and rounded to two decimal places.

- (5) Shares granted to Company officers in the fiscal year under review as consideration for execution of duties

Category	Number of shares held	Number of persons granted shares
Directors (excluding Outside Directors)	7,119 shares	3
Outside Directors	—	—

3. Share Acquisition Rights, etc. (as of March 31, 2022)

Not applicable.

4. Company Officers

(1) Directors and Audit & Supervisory Board Members (as of March 31, 2022)

Position	Name	Responsibilities and significant concurrent positions
Representative Director, Member of the Board; President, Executive Officer	Tsuyoshi Inoue	
Director, Member of the Board; Managing Executive Officer	Kimio Ouchi	Representative Director, I.D.U. Co., Ltd. Representative Director, DKK Logistics Corporation
Director, Member of the Board; Managing Executive Officer	Hiroshi Kokubu	General Manager, Operational Unit Vice President, Shandong Guangyin DKK New Materials Co., Ltd. Vice President, Shandong Guangyin DKK Environment Technology Co., Ltd. President, DKK (Shanghai) Materials Trading Co., Ltd.
Director, Member of the Board	Tetsuo Horiuchi	
Director, Member of the Board	Akira Okumura	
Director, Member of the Board	Hajime Nagahara	
Standing Audit & Supervisory Board Member	Hiroshi Kawaguchi	
Audit & Supervisory Board Member	Nobuhiro Nishii	Representative Director, KJS Company LTD. Representative Director, TCS Ltd.
Audit & Supervisory Board Member	Yoshinori Tsuda	Representative Director and Partner, ASUKA Consulting INC. Representative, Yoshinori Tsuda CPA Office Outside Director (Audit and Supervisory Committee Member), YAMAZEN CORPORATION

- Notes: 1. Directors Tetsuo Horiuchi, Akira Okumura, and Hajime Nagahara are Outside Directors. Furthermore, the Company has registered each of them as independent officers pursuant to the regulations set forth by the Tokyo Stock Exchange.
2. Audit & Supervisory Board Members Hiroshi Kawaguchi, Nobuhiro Nishii, and Yoshinori Tsuda are Outside Audit & Supervisory Board Members. Furthermore, the Company has registered each of them as independent officers pursuant to the regulations set forth by the Tokyo Stock Exchange.
3. There are no special relationships of particular note with the corporations, etc. where Audit & Supervisory Board Members Nobuhiro Nishii and Yoshinori Tsuda hold significant concurrent positions.
4. Audit & Supervisory Board Members Hiroshi Kawaguchi, Nobuhiro Nishii, and Yoshinori Tsuda have a considerable amount of knowledge about finance and accounting, as detailed below.
- Audit & Supervisory Board Member Hiroshi Kawaguchi has experience serving as General Manager of the Accounting Department and General Manager of the Financial Department at his previous concurrent employer, Watabe Ishoten K.K. (currently Watabe Wedding Corporation).
 - Audit & Supervisory Board Member Nobuhiro Nishii has experience serving as General Manager of the Accounting Department and Director and General Manager of the Accounting Department at his previous concurrent employer, NICHINOKEN Kansai Co., Ltd.
 - Audit & Supervisory Board Member Yoshinori Tsuda is the Representative Director and Partner of ASUKA Consulting INC. and is qualified as a certified public accountant.

5. The Company has introduced an executive officer system, and the Executive Officers are as follows.

Position	Name	Responsibilities and significant concurrent positions
Representative Director, Member of the Board; President, Executive Officer	Tsuyoshi Inoue	
Director, Member of the Board; Managing Executive Officer	Kimio Ouchi	Representative Director, I.D.U. Co., Ltd. Representative Director, DKK Logistics Corporation
Director, Member of the Board; Managing Executive Officer	Hiroshi Kokubu	General Manager, Operational Unit Vice President, Shandong Guangyin DKK New Materials Co., Ltd. Vice President, Shandong Guangyin DKK Environment Technology Co., Ltd. President, DKK (Shanghai) Materials Trading Co., Ltd.
Senior Executive Officer	Tadashi Terada	General Manager, Administration Unit
Senior Executive Officer	Isao Okazaki	General Manager, Production & Engineering Unit Director, Shandong Guangyin DKK New Materials Co., Ltd. Director, Shandong Guangyin DKK Environment Technology Co., Ltd. Director, Vietnam Rare Elements Chemical Joint Stock Company
Senior Executive Officer	Masayuki Itahashi	General Manager, Corporate Planning Division Director, Vietnam Rare Elements Chemical Joint Stock Company
Executive Officer	Hiroshi Okamoto	General Manager, R&D Unit
Executive Officer	Keita Kodama	President, Vietnam Rare Elements Chemical Joint Stock Company

(2) Agreement on Limitation of Liability

Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has entered into agreements with Tetsuo Horiuchi, Akira Okumura, Hajime Nagahara, Hiroshi Kawaguchi, Nobuhiro Nishii, and Yoshinori Tsuda to limit their liability for damages prescribed in Article 423, Paragraph 1 of the same Act. The amount of their total maximum liability for damages under these agreements is the higher amount of 5,000,000 yen or the minimum liability amount prescribed in Article 425, Paragraph 1 of the same act.

(3) Summary of Directors and Officers Liability Insurance Contract

The Company and the Directors, Audit & Supervisory Board Members, and Executive Officers have concluded a directors and officers liability insurance contract with an insurance company as set forth in Article 430-3, Paragraph 1 of the Companies Act, with the Company paying all insurance premiums.

The contents of this contract are as follows: with the major executives, including the Directors, Audit & Supervisory Board Members, and Executive Officers, as the insured and the entire world as the applicable territory, in the event that a claim for damages is made by a shareholder, company, employee, or other third party against the insured based on an act that the insured committed in the course of his or her duties, the policy will cover the damages and costs of litigation. However, damages, etc., caused by criminal acts such as bribery or an intentional breach are not covered by the policy, and as such, measures have been implemented to ensure that the properness of the execution of duties by the insured is maintained.

(4) Compensation of Officers

1) Policy for the determination of compensation of Directors

The Company considers the officers' compensation system to be a key pillar of its corporate governance. To ensure that the officers' compensation system leads to the ongoing enhancement of corporate value, the Compensation Committee, chaired by an Outside Director, has formulated an officers' compensation policy, incorporating objective perspectives and the suppression of an over-emphasis on short-term intent, and this policy has been decided by the Board of Directors.

A summary of the contents of the policy is as follows:

- a. the system should be designed to reflect the Company's medium- to long-term management strategies, while at the same time providing strong motivation for medium- to long-term growth;
- b. the system's level of compensation and design should enable the Company to secure outstanding talent globally, stimulate motivation for growth among that talent, who will be the next generation of management, and be able to increase the dynamism of the organization;
- c. the system should be one in which company performance and individual performance are reflected directly and quantitatively in compensation, to strengthen the links to performance and raise incentive.

Compensation of inside (full-time) Directors comprises fixed, variable, and share-based compensation. The variable compensation comprises performance-linked compensation, using the degree of achievement of net sales and ordinary profit as indicators, and individual evaluation-based compensation. The percentage of performance-linked compensation is set higher the higher ranked the position, in proportion with management responsibilities. The Compensation Committee conducts ongoing deliberation and monitoring of the suitability of the level and composition of officers' compensation and the appropriateness of the compensation determination process, etc.

Regarding the decisions on individual compensation amounts for the fiscal year under review, based on recommendations from the Compensation Committee and upon deliberation of the Board of Directors, the Board of Directors has determined that those decisions are in line with the policy.

Due to the need to ensure independence so that they will fulfill their respective roles appropriately, compensation of Outside Directors is by fixed compensation only. Compensation of Audit & Supervisory Board Members is also by fixed compensation only, from a perspective of emphasizing independence from management and objectivity. Compensation for Audit & Supervisory Board Members is decided by consultation of the Audit & Supervisory Board.

2) Resolution of the General Meeting of Shareholders regarding compensation of Directors and Audit & Supervisory Board Members

The amount of monetary compensation for Directors of the Company was approved at the 47th Annual General Meeting of Shareholders held on May 14, 2003 to be no more than 500 million yen per year. There were six (6) Directors at the time of the conclusion of that General Meeting. Further, at the 63rd Annual General Meeting of Shareholders held on June 25, 2019, a resolution was passed for compensation by granting restricted stock of up to 100 million yen per year to Directors (excluding Outside Directors), separately from the aforementioned 500 million yen compensation limit. There were six (6) Directors at the time of the conclusion of that General Meeting.

The amount of monetary compensation for Audit & Supervisory Board Members was approved at the 47th Annual General Meeting of Shareholders held on May 14, 2003 to be no more than 100 million yen per year. There was one (1) Audit & Supervisory Board Member at the time of the conclusion of that General Meeting. The number of Audit & Supervisory Board Members was increased to three (3) at an Extraordinary General Meeting of Shareholders held on November 7, 2003.

3) Delegation of decisions on the compensation, etc. of individual directors Not applicable.

4) Compensation, etc. of officers

Officer Category	Total compensation amount (Thousand yen)	Total amount by type of compensation, etc. (Thousand yen)			Number of eligible officers
		Basic compensation	Performance-linked compensation	Non-monetary compensation	
Directors [of which Outside Directors]	126,028 [32,400]	102,554 [32,400]	9,389 [—]	14,085 [—]	6 [3]
Audit & Supervisory Board Members [of which Outside Audit & Supervisory Board Members]	27,000 [27,000]	27,000 [27,000]	— [—]	— [—]	3 [3]

5) Performance-linked compensation

Variable compensation for inside (full-time) Directors is paid based on company performance and individual evaluation.

Indicators of company performance are ones that directly show company performance. The indicators used for internal targets, namely net sales and ordinary profit, are used as the indicators for performance-linked compensation. Net sales and ordinary profit were chosen because they are the most appropriate indicators of contribution to the improvement of the Group's performance and to the enhancement of corporate value and also because the Company determined that, being clear and objective indicators, they would enable greater transparency of performance-linked compensation. Net sales for the fiscal year under review amounted to 29,365 million yen and ordinary profit to 6,000 million yen. The forecasts for net sales and ordinary profit disclosed at the beginning of the fiscal year are set as "net sales criterion" and "ordinary profit criterion" respectively, and compensation amounts are decided based on the degree to which net sales and ordinary profit results achieved these criteria. Regarding the calculation method, the compensation amount in the event that the indicators achieved 100% of the criteria is set as the "compensation base amount," and the net sales portion of the compensation amount is calculated by increasing or decreasing a pre-determined compensation base amount for the net sales portion by 10% for every 2.5% increase or decrease from the net sales criterion. The ordinary profit portion of the compensation amount is calculated by increasing or decreasing a pre-determined compensation base amount for the ordinary profit portion by 10% for every 5% increase or decrease from the operation profit criterion. The upper limit of the compensation amount for both the net sales portion and the operating profit portion is up to 200% of the compensation base amounts.

Regarding individual evaluation-based compensation, the Representative Director and President/Executive Officer evaluates the degree to which each Director (excluding the President/Executive Officer) achieved his or her goals for the fiscal year under review and the state of their efforts toward them. After the Compensation Committee has confirmed the validity of those evaluations, the compensation amounts are decided at the Board of Directors. In the event that business performance deteriorates and net profit margin falls significantly, restrictions on the payment of variable compensation may be established in line with the net profit margin.

The method of payment of variable compensation based on results of the fiscal year is payment as bonuses for the fiscal year under review.

The total amount of performance-based compensation, etc. stated above in 4) Compensation, etc. of officers is the variable compensation based on the results of the fiscal year under review. Regarding variable compensation based on the results of the fiscal year under review, because of the recording of extraordinary loss, based on recommendations from the Compensation Committee, the Board of Directors made the decision to take a pay cut of about 85% from the total amount of compensation calculated according to the rule.

6) Non-monetary compensation

In an effort to further share value with shareholders, inside (full-time) Directors were granted share-based compensation. The main details are as follows.

Eligible parties	Directors (excluding Outside Directors)
Share compensation limit	No more than 100 million yen per year
Share-based compensation for individual Directors	Fixed amount is set according to job responsibilities
Type of shares allocated and allocation method	Issue or disposition of ordinary shares
Total number of shares to be allocated	Total of no more than 100,000 shares per year
Transfer restriction period	30 years from date of allocation
Handling at time of resignation	In the event that a Director or Audit & Supervisory Board Member of the Company ceases to hold that position before the expiration of the transfer restriction period, the Company shall rightfully acquire the allocated shares without consideration, except in cases where the position was vacated due to expiration of term of office, death, or other valid reason.
Conditions for lifting of restrictions on transfer	Restrictions shall be lifted with the expiration of the transfer restriction period. However, in the event that a Director or Audit & Supervisory Board Member of the Company ceases to hold that position before the expiration of the transfer restriction period due to expiration of term of office, death, or other valid reason, the restrictions on transfer will be lifted.

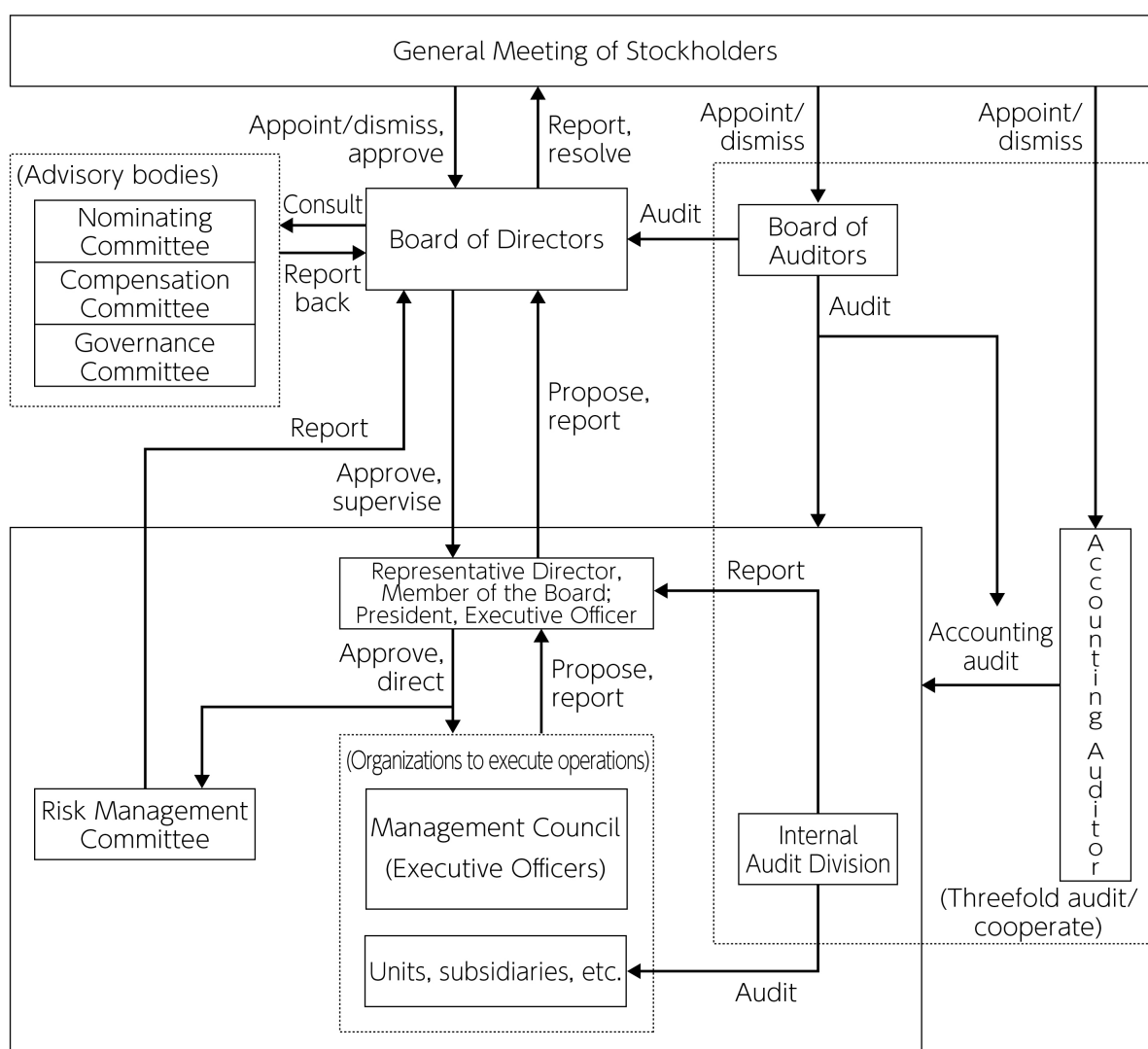
An overview of the details and granting of this share-based compensation is as described in 2. Shares of the Company.

(5) Main Activities of Outside Officers

Position	Name	Major activities
Outside Director	Tetsuo Horiuchi	Mr. Horiuchi attended all 13 Board of Directors meetings. Leveraging his wealth of experience and knowledge in quality, environment, and safety and his experience as a director and global manager at his former employer, he actively expressed his opinions in the Board of Directors and elsewhere on issues such as the Group's business operations in general, investment decisions and their verification, effectiveness of the Board of Directors, revitalization of human resources and organization, and medium-term management plans, demonstrating a supervisory function. He also served as the Chair of both the Nomination Committee and the Compensation Committee and as a member of the Governance Committee.
	Akira Okumura	Mr. Okumura attended all 13 Board of Directors meetings. Leveraging his wealth of experience and knowledge related to sales and supply chains and his experience as a representative director of a global company, he actively expressed his opinions in the Board of Directors and elsewhere on issues such as the Group's business operations in general, investment decisions and their verification, risk management, corporate governance, and medium-term management, demonstrating a supervisory function. His comments at the Board of Directors meetings, etc. played a key role in increasing the Company's business competitiveness and in the enhancement of corporate value. He also served as the Chair of the Governance Committee, member of the Nomination Committee and Compensation Committee.
	Hajime Nagahara	Mr. Hajime Nagahara attended all 13 Board of Directors meetings. Leveraging his wealth of experience and knowledge about chemical technology and his experience as director and Audit & Supervisory Board member of other companies, he expressed opinions at the Board of Directors meetings and elsewhere about the state of governance, the need for the evolution of production technologies, investment decisions and their verification, medium-term management plans, and information security from an objective perspective in terms of technology and management, demonstrating a supervisory function. His comments at the Board of Directors meetings, etc. played a key role in increasing the Company's business competitiveness and in the enhancement of corporate value. He also served as a member of the Governance Committee.
Outside Audit & Supervisory Board Member	Hiroshi Kawaguchi	Mr. Kawaguchi attended all 13 Board of Directors meetings and all 14 Audit & Supervisory Board meetings. He also attended Management Council meetings and other important meetings in his capacity as Full-time Audit & Supervisory Board Member, asking questions and making comments where necessary about decision-making processes and the execution of operations by the Directors, etc., leveraging his experience and insights as director and Audit & Supervisory Board member at listed companies. He also coordinated with the other Audit & Supervisory Board members to conduct audits, concentrating on the status of the establishment and implementation of internal control systems, the status of implementation of risk management, the status of compliance initiatives, and the status of appropriate operations pertaining to financial reports. He also served as a member of the Governance Committee.
	Nobuhiro Nishii	Mr. Nishii attended all 13 Board of Directors meetings and all 14 Audit & Supervisory Board meetings. He made appropriate comments at the Board of Directors meetings, etc. based on his experience and insights gained in the administration divisions of financial institutions and listed companies. He also coordinated with the other Audit & Supervisory Board members to conduct audits, concentrating on the status of the establishment and implementation of internal control systems, the status of implementation of risk management, the status of compliance

Position	Name	Major activities
		initiatives, and the status of appropriate operations pertaining to financial reports. He also served as a member of the Governance Committee.
	Yoshinori Tsuda	Mr. Tsuda attended 12 meetings out of 13 meetings Board of Directors meetings and all 14 Audit & Supervisory Board meetings. He asked questions and made comments at the Board of Directors meetings, etc., where necessary about decision-making processes and the execution of operations by the Directors, etc. based on his experience as an expert in finance and accounting and his insights as the owner of a consulting firm, and demonstrated his audit functions. He also served as a member of the Governance Committee.

Corporate Governance Structure



5. Accounting Auditor

(1) Accounting Auditor's Name
Ernst & Young ShinNihon LLC

(2) Accounting Auditor's Compensation, etc.

	Amount Paid
Accounting Auditor's compensation, etc., for the fiscal year ended March 31, 2022	33,300,000 yen
Cash and other profits payable by the Company or its subsidiaries to Accounting Auditor	33,300,000 yen

Notes: 1. The audit agreement between the Company and the Accounting Auditor does not distinguish between the amount of accounting auditor's compensation, etc. being derived from the audit under the Companies Act and that being derived from the audit under the Financial Instruments and Exchange Act. As such distinction cannot essentially be made, the amount of compensation, etc. is presented as the total of these amounts.

2. The material subsidiaries of the Company have received audits from audit firms other than the Company's Accounting Auditor.

3. Based on the Practical Guidelines for Collaboration with Accounting Auditors published by the Japan Audit & Supervisory Board Members Association, the Company's Audit & Supervisory Board has given consent to the compensation, etc. to be paid to the Accounting Auditor pursuant to Article 399, Paragraph 1 and 2 of the Companies Act after confirming and considering the audit results for the previous fiscal year about which they were briefed by the Accounting Auditor and relevant divisions within the Company, the execution of the audit by the Accounting Auditor, the details of the audit schedule for the fiscal year under review, and the validity of compensation estimates.

(3) Policy on Determination of Dismissal or Non-reappointment of Accounting Auditor

The Company's Audit & Supervisory Board shall dismiss the Accounting Auditor with the unanimous consent of all Audit & Supervisory Board Members if they recognize that the Accounting Auditor falls under any of the items set forth in Article 340, Paragraph 1 of the Companies Act, such as having breached its obligations in the course of duty, or neglected its duties, or engaged in misconduct inappropriate for an accounting auditor. In such an event, an Audit & Supervisory Board Member selected by the Audit & Supervisory Board shall report the dismissal of the Accounting Auditor and the reasons for it at the first General Meeting of Shareholders convened after the dismissal.

Further, if the Audit & Supervisory Board Members recognize that it has become difficult for the Accounting Auditor to execute its duties appropriately or if it determines that the replacement of the Accounting Auditor would be appropriate to further improve the properness of audits, the Audit & Supervisory Board will decide the content of a proposal to be submitted to the General Meeting of Shareholders concerning the dismissal or non-reappointment of the Accounting Auditor.

6. Basic Policies on Establishment of Internal Control Systems and Their Implementation Status

Basic Policies

- (1) System to ensure Directors and employees of the Corporate Group execute their duties in accordance with laws and regulations and the Articles of Incorporation

Basic Policy	<p>1) The Group will make the Action Guidelines of Daiichi Kigenso Kagaku Kogyo Co., Ltd., specific rules for management to fulfill its social responsibilities, well known to its Directors and employees to ensure their legal compliance.</p> <p>2) The Group will establish internal and external whistleblowing contact points for the purpose of discovering and correcting legal violations and instances of unfair practices within the Group. In addition, the Group will not treat whistleblowers unfavorably.</p> <p>3) The Group will establish the Internal Audit Division controlled directly by the President to audit the appropriateness of the Group's operations.</p> <p>4) Our policy for the elimination of anti-social forces is declared in the Action Guidelines of DAIICHI KIGENSO KAGAKU KOGYO CO., LTD. and provided in the Rules for Banning Relations with Anti-social Forces. The Company also coordinates with local police departments, etc. and strives to obtain relevant information.</p>
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- (2) System concerning the storage and management of information on the execution of duties by Directors

Basic Policy	Documents relevant to the execution of duties by Directors such as minutes of board meetings and requests for managerial decisions will be stored and managed appropriately in accordance with laws and regulations as well as internal rules.
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- (3) Rules and other systems concerning the Corporate Group's management of risk of loss

Basic Policy	<p>1) The Group will establish the Risk Management Committee, collect and analyze risk information, and take preventive measures against risks which may have grave consequences in order to continue its business and fulfill its social responsibilities.</p> <p>2) In the event that a crisis occurs, responses will be made in accordance with the crisis management system as set forth in the Rules for Crisis Management.</p>
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- (4) System to ensure the efficient execution of duties by Directors of the Corporate Group

Basic Policy	<p>1) The Board of Directors will make decisions on the execution of the important duties based on the Rules for the Board of Directors, and serve a supervising function while receiving reports from each Director regarding the Company's and its subsidiaries' performance of operations based on the medium-term management plan.</p> <p>2) The Group will establish the Management Council consisting of the Board of Directors, Standing Audit & Supervisory Board Member and Unit General Managers, etc. discuss from multiple perspectives and make decisions on the execution of important duties within the authority of the President.</p>
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(5) System for reports to the Company regarding the execution of duties by the directors of individual Group companies

Basic Policy	The Company will receive timely reports on business performance, management challenges, and other important information of subsidiaries and affiliated companies based on the Rules for Management of Affiliated Companies.
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(6) System for employees to assist the duties of Audit & Supervisory Board Members and matters concerning securing the independence of those employees from Directors and the effectiveness of directions to those employees

Basic Policy	The Company, placing no employee to assist with the duties of Audit & Supervisory Board Members at present, will assign assistants if requested by Audit & Supervisory Board Members, securing their independence.
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(7) System for Directors and employees of the Corporate Group to report to Audit & Supervisory Board Members, other systems for reporting to Audit & Supervisory Board Members, and system to ensure Audit & Supervisory Board Members conduct effective audits

Basic Policy	1) Directors and employees will report the execution of their duties through the attendance of Audit & Supervisory Board Members at meetings of the Board of Directors and the Management Council. Audit & Supervisory Board Members may request that Directors and employees report to them as necessary, in addition to the above.
	2) Directors and employees of the Group or any person reported by them will report to Audit & Supervisory Board Members immediately if they discover any grave legal violation or fact which may cause substantial damage to the Company or their companies.
	3) The Company will not treat those who report to Audit & Supervisory Board Members unfavorably for reason of such reporting.
	4) If Audit & Supervisory Board Members make a request for expenses relevant to the execution of their duties, it will be processed appropriately in accordance with Article 388 of the Companies Act.

Implementation Status

Based on the aforementioned basic policies, a comprehensive review of the implementation status of internal systems was conducted at the Board of Directors meeting held on March 17, 2022.

(1) Efforts toward compliance systems

- The Company performed a self-assessment of the implementation status of compliance in the entire Group, and awareness-raising and education activities were conducted where improvement was needed.
- To deepen employees' understanding about the various types of harassment and for the thorough prevention of harassment, awareness-raising and education activities were conducted.
- The Company has formulated a Human Rights Policy, which sets out the Group's understanding and initiative policy towards human rights, and implemented human right protection activity.

(2) Efforts toward risk management systems

- In addition to deliberating on risks that present an urgent challenge for the Group in the Management Council, the Risk Management Committee took an encompassing view of risks in the Group, conducted an evaluation of those risks based on their likelihood of occurring and degree of impact, and confirmed the state of responses to them.
- Based on the Risk Management Rules, training of initial responses in the event of an emergency was conducted. Further, procedures and systems for the appropriate disclosure of information in the event of an emergency were established.

(3) Efforts toward systems for execution of duties

- In 2020, an executive officer system was introduced, the number of Directors (six Directors, including three Outside Directors) was reduced, and efforts are being made to strengthen the supervisory functions of the Board of Directors and enhance deliberation systems.
- In the Management Council, whose members are Directors, Executive Officers, and Unit General Managers, prompt decisions are made about the execution of important operations, etc. within the President's authority. The Outside Directors and Standing Audit & Supervisory Board Member also attend the Management Council and express appropriate opinions where fitting

(4) Efforts toward systems for audits by Audit & Supervisory Board Members

- Meetings are held from time to time with the Accounting Auditor where necessary to share information, and the Outside Directors and Internal Audit Division attend the Accounting Auditor's Audit Results Report Meeting held on a quarterly basis to share audit information.
- In addition to attending Board of Director meetings, the Standing Audit & Supervisory Board Member participates in important meetings of the Management Council and other bodies and confirms the contents of deliberations.
The Standing Audit & Supervisory Board Member accompanies the operational audits conducted by the Internal Audit Department and confirms the status of the execution of duties in the workplace. For on-site audits at overseas subsidiaries, etc. although there were restrictions on movement due to the impact of COVID-19, internal audits were conducted using web-conferencing systems.

7. Policy regarding the determination of dividends of surplus

The Company's approach to profit allocation is to continue stable dividend while securing retained earnings necessary to develop future businesses and strengthen the management practices.

The Company's basic policy is to distribute surplus twice a year as interim dividend and year-end dividend. We have determined to pay both interim and year-end dividends by a resolution of the Board of Directors.

In light of this dividend policy and the current management circumstances, the Company will provide year-end dividends of 10 yen per share for the fiscal year under review. Combined with the 13-yen interim dividend, the annual dividend will be 23 yen.

The Company wishes to invest its internal reserves effectively to further increase cost competitiveness to respond to future changes in the management environment, strengthen its technological and manufacturing development systems to meet market needs, and, further, to roll out global strategies.

End of Report

(Reference) Policies and Procedures for Appointment and Dismissal of Directors and Audit & Supervisory Board Members

Basic Policy on Appointment and Dismissal of Officers

In the appointment and dismissal of Directors, given that these are the most important strategic decisions for the sustainable growth of the Company and the medium- to long-term enhancement of corporate value, the Company considers the balance and diversity of the qualities and experiences of the Board of Directors and the officers as a whole when nominating candidates for Director and Audit & Supervisory Board Member.

With the objectives of selecting the best talent to be officers and of establishing appointment and dismissal procedures that are objective, timely, and transparent, Officer Selection Standards, Standards for the Dismissal and Termination of Employment of Officers, and Procedures for the Appointment and Dismissal of Officers have been established. In line with these standards and procedures, the appointment and dismissal of officers is deliberated by the Nomination Committee, comprising the Representative Director and President/Executive Officer and Outside Directors and chaired by an Outside Director, and decisions on candidates are made by the Board of Directors.

Procedure for Nomination of Officers

The appointment and dismissal of Directors and Audit & Supervisory Board Members are conducted according to the following steps.

- 1) The appointment of Directors and Audit & Supervisory Board Members shall be by resolution of the General Meeting of Shareholders. Candidates are recommended by the Representative Director and President/Executive Officer in light of the Selection Standards, and after deliberation by the Nomination Committee, decisions are made by the Board of Directors. The approval of the Audit & Supervisory Board is also obtained for the selection of candidates for Audit & Supervisory Board Members.
- 2) Regarding the dismissal and termination of employment of Directors and Audit & Supervisory Board Members, if another Director makes a proposal that falls under the Standards for Dismissal and Termination of Employment, after deliberations by the Nomination Committee, the Board of Directors will convene the General Meeting of Shareholders and make a resolution.

Consolidated Financial Statements

(April 1, 2021 - March 31, 2022)

Consolidated Balance Sheet

(As of March 31, 2022)

(In thousands of yen)

Description	Amount	Description	Amount
(Assets)		(Liabilities)	
Current assets	28,502,826	Current liabilities	10,120,426
Cash and deposits	8,840,381	Notes and accounts payable-trade	873,067
Notes and accounts receivable-trade	6,025,223	Short-term borrowings	2,900,000
Finished goods	5,619,407	Current portion of long-term borrowings	3,298,497
Work in process	1,986,425	Accounts payable - other	959,241
Raw materials and supplies	4,209,359	Income taxes payable	1,253,479
Other	1,822,030	Provision for bonuses	447,887
		Provision for bonuses for directors (and other officers)	32,804
Non-current assets	29,540,726	Other	355,449
Property, plant and equipment	24,573,058	Non-current liabilities	16,106,687
Buildings and structures	5,784,030	Long-term borrowings	15,742,776
Machinery, equipment and vehicles	5,868,061	Retirement benefit liability	2,550
Land	2,235,721	Other	361,361
Construction in progress	10,353,215	Total liabilities	26,227,113
Other	332,029	(Net assets)	
Intangible assets	1,385,494	Shareholders' equity	31,004,060
Investments and other assets	3,582,174	Share capital	787,100
Investment securities	737,632	Capital surplus	1,154,772
Shares of subsidiaries and associates	17,500	Retained earnings	29,102,373
Long-term loans receivable	390,959	Treasury shares	(40,185)
Retirement benefit asset	609,165	Accumulated other comprehensive income	191,569
Deferred tax assets	266,727	Valuation difference on available-for-sale securities	310,875
Long-term advance payments - other	2,447,727	Foreign currency translation adjustment	(258,272)
Other	1,414,060	Remeasurements of defined benefit plans	138,966
Allowance for doubtful accounts	(2,448,937)	Non-controlling interests	620,809
		Total net assets	31,816,439
Total assets	58,043,553	Total liabilities and net assets	58,043,553

Note: Figures presented in the financial statements are rounded down to the nearest thousand yen.

Consolidated Statement of Income

(April 1, 2021 - March 31, 2022)

(In thousands of yen)

Description	Amount	
Net sales		29,365,738
Cost of sales		21,176,352
Gross profit		8,189,386
Selling, general and administrative expenses		4,420,565
Operating profit		3,768,821
Non-operating income		
Interest income	56,940	
Dividend income	13,312	
Purchase discounts	13,520	
Share of profit of entities accounted for using equity method	177,419	
Foreign exchange gains	2,092,722	
Subsidy income	69,322	
Other	126,058	2,549,294
Non-operating expenses		
Loss on valuation of derivatives	222,396	
Interest expenses	83,062	
Other	11,952	317,412
Ordinary profit		6,000,704
Extraordinary losses		
Loss on valuation of advance payments to suppliers	546,271	
Loss on disposal of non-current assets	114,476	
Provision of allowance for doubtful accounts	1,804,727	2,465,475
Profit before income taxes		3,535,228
Income taxes-current	1,597,406	
Income taxes-deferred	52,303	1,649,709
Profit		1,885,519
Profit attributable to non-controlling interests		35,987
Profit attributable to owners of parent		1,849,531

Note: Figures presented in the financial statements are rounded down to the nearest thousand yen.

Consolidated Statement of Changes in Equity

(April 1, 2021 – March 31, 2022)

(In thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of April 1, 2021	787,100	1,135,934	27,801,120	(44,742)	29,679,412
Changes in items during period					
Dividends from surplus			(558,580)		(558,580)
Profit attributable to owners of parent			1,849,531		1,849,531
Purchase of treasury shares				(96)	(96)
Disposal of treasury shares		18,838		4,653	23,491
Change in scope of consolidation			10,301		10,301
Net changes in items other than shareholders' equity					
Total changes in items during period	—	18,838	1,301,253	4,557	1,324,648
Balance as of March 31, 2022	787,100	1,154,772	29,102,373	(40,185)	31,004,060

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of April 1, 2021	397,782	(11,116)	140,502	527,168	577,437	30,784,018
Changes in items during period						
Dividends from surplus						(558,580)
Profit attributable to owners of parent						1,849,531
Purchase of treasury shares						(96)
Disposal of treasury shares						23,491
Change in scope of consolidation						10,301
Net changes in items other than shareholders' equity	(86,906)	(247,156)	(1,536)	(335,599)	43,372	(292,227)
Total changes in items during period	(86,906)	(247,156)	(1,536)	(335,599)	43,372	1,032,421
Balance as of March 31, 2022	310,875	(258,272)	138,966	191,569	620,809	31,816,439

Notes to the Consolidated Financial Statements

(Notes on the Basis for Preparation of Consolidated Financial Statements)

1. Scope of consolidation

Number of consolidated subsidiaries: 5

Names of consolidated subsidiaries:

Vietnam Rare Elements Chemical Joint Stock Company
DKK (Shanghai) Materials Trading Co., Ltd.
DKK Thai Materials Trading Co., Ltd.
DKK America Materials, Inc.
DKK Logistics Corporation

Changes in the scope of consolidation

Effective from the fiscal year ended March 31, 2022, the Company included DKK Logistics Corporation in the scope of consolidation due to its significance.

2. Application of the equity method

(1) Names of associates accounted for using the equity method

Number of associates accounted for using the equity method: 2

Names of associates accounted for using the equity method:

Shandong Guangyin DKK New Materials Co., Ltd.
Shandong Guangyin DKK Environment Technology Co., Ltd.

(2) Names of associates not accounted for using the equity method

IDU Co., Ltd.

Reason for not accounted for using the equity method:

The associate not accounted for using the equity method is excluded from the scope of the equity method since it has no significant impact on the consolidated financial statements in terms of profit or loss (amounts corresponding to the Company's equity interest) and retained earnings (amounts corresponding to the Company's equity interest), etc., and the impact is also insignificant as a whole.

(3) Special matters concerning application of the equity method

Of the associates accounted for using the equity method, those that have different closing dates are included in the consolidated financial statements based on their respective financial statements as of their most recent fiscal year-end.

3. Fiscal year-end of consolidated subsidiaries

The Company's consolidated subsidiaries: Vietnam Rare Elements Chemical Joint Stock Company, DKK (Shanghai) Materials Trading Co., Ltd., DKK Thai Materials Trading Co., Ltd., DKK America Materials, Inc., and DKK Logistics Corporation, settle accounts on December 31. In the preparation of consolidated financial statements, the Company used these companies' financial statements as of December 31 and for the year then ended, and made necessary adjustments for major transactions that occurred between December 31 and March 31.

4. Matters concerning accounting policies

(1) Basis and methods for valuation of significant assets

1) Basis and method for valuation of securities

Available-for-sale securities:

Securities other than equity securities without market prices:

Stated at fair value based on market prices as of the balance sheet date. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Costs of securities sold are determined by the moving-average method.

Equity securities without market prices:

Stated at cost determined by the moving-average method.

2) Basis and method for valuation of inventories

At the Company and its overseas consolidated subsidiaries, inventories are measured at the lower of cost determined by the weighted-average method or net selling value.

- 3) Basis and method for valuation of net receivables and payables arising from derivatives transactions
Stated at fair value.
- (2) Depreciation or amortization method for significant depreciable or amortizable assets
 - 1) Property, plant and equipment
The Company applies the declining-balance method and its overseas consolidated subsidiaries apply the straight-line method.
However, the straight-line method is applied for buildings (excluding building fixtures) acquired on or after April 1, 1998 and building fixtures and structures acquired on or after April 1, 2016.
 - 2) Intangible assets
The straight-line method is applied.
Internal-use software is amortized over the estimated period of internal use (3 to 5 years). Fixed-term land lease rights are amortized over the respective term of lease agreements.
- (3) Basis for significant provision and allowance
 - 1) Allowance for doubtful accounts
The Company provides the allowance for doubtful accounts at the amount determined based on the historical experience of bad debt with respect to ordinary receivables and an estimate of uncollectible amount determined by reference to specific doubtful receivables of customers experiencing financial difficulties. Overseas consolidated subsidiaries provide the allowance for doubtful accounts mainly for specific receivables at the amount determined based on an estimate of uncollectible amount.
 - 2) Provision for bonuses
The Company provides the provision for bonuses to meet the payment to employees at the estimated amount which the Company is obligated to pay as of the balance sheet date.
 - 3) Provision for bonuses for directors (and other officers)
The provision for bonuses for directors (and other officers) is provided to meet the payment to directors (and other officers) at the estimated amount.
- (4) Basis for recognizing revenue and expenses
The Company determines that performance obligations on sales of the Company's products are satisfied at the point in time at which the products are delivered to the customers, since the legal titles, physical possessions, significant risks and rewards of ownership of the products are transferred and the customers obtain the control of the products at the point in time of delivery. The Company also determines the amount of revenue at the amount calculated by deducting discounts, rebates and refunds due to returned goods, etc. from the promised considerations under the contracts with customers.
- (5) Other significant matters for the preparation of consolidated financial statements
 - 1) Accounting treatment of retirement benefits
 - a. Method of attributing retirement benefit obligation to the period
The benefit formula basis is used as a method of attributing retirement benefit obligation to the period through the end of the fiscal year.
 - b. Treatment of actuarial differences
Actuarial differences are amortized commencing in the following year after the differences are recognized, using the straight-line method over a period within the average remaining service years for employees (5 years) at the time of recognition of such differences for respective fiscal year.
 - c. Application of the simplified method for small-sized companies, etc.
Certain consolidated subsidiaries apply the simplified method that assumes the amount required for voluntary resignation at the end of the fiscal year to be retirement benefit obligation in computing retirement benefit liability and retirement benefit expenses.
 - 2) Basis for foreign currency translation of significant assets and liabilities denominated in foreign currencies
Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the prevailing rates of exchange at the consolidated balance sheet date. Exchange gains or losses resulting from translation of assets and liabilities are recognized in income or expenses.

The assets and liabilities of overseas consolidated subsidiaries are translated into Japanese yen at the prevailing rates of exchange at the respective balance sheet date. Revenue and expense items are translated at the average exchange rate prevailing during the fiscal year. The exchange differences are recognized as foreign currency translation adjustment and non-controlling interests under a separate component of net assets.

3) Significant hedge accounting method

- a. Hedge accounting method
The outstanding interest rate swaps qualify for exceptional treatment, and thus the exceptional hedge accounting treatment is applied.
- b. Hedging instruments and hedged items
Hedging instruments – interest rate swaps
Hedged items – borrowings
- c. Hedging policy
As a basic policy, the Company uses hedging instruments within certain defined limits for the purpose of hedging the risk of interest rate fluctuations.
- d. Method to assess hedge effectiveness
The assessment of hedge effectiveness is omitted since the interest rate swaps qualify for exceptional treatment.

5. (Changes in accounting policies)

(Application of accounting standard for revenue recognition, etc.)

Applying the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020, hereinafter, the “Accounting Standard for Revenue Recognition”), etc. effective from the beginning of the fiscal year ended March 31, 2022, the Company recognizes revenue when a control of a promised good or service is transferred to a customer at the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services.

In accordance with the transitional treatment prescribed in the proviso to Paragraph 84 of the Accounting Standard for Revenue Recognition, the Company adjusted the beginning balance of retained earnings for the cumulative effect of retroactive application of the new accounting policy prior to the beginning of the fiscal year ended March 31, 2022, and then has applied the new accounting policy.

From this change, there is no impact on the profit or loss for the fiscal year ended March 31, 2022. Also, there is no impact on the beginning balance of retained earnings.

(Accounting standard for fair value measurement, etc.)

Effective from the beginning of the fiscal year ended March 31, 2022, the Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019, hereinafter, the “Accounting Standards for FVM”), etc. In accordance with the transitional treatment prescribed in Paragraph 19 of the Accounting Standards for FVM and Paragraph 44-2 of “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the Company has applied this new accounting policy prospectively.

6. (Notes on Revenue Recognition)

- (1) Information on disaggregation of revenue from contracts with customers

Net sales (In millions of yen)	
Major regional market:	
Japan	13,511
Asia	6,845
North America	5,297
Europe	3,369
Other	341
Total	29,365
Sales by use:	
Catalysts	17,670
Electronic materials and oxygen sensors	2,879
Fine ceramics	3,450
Refractories and brake materials	3,366
Other	1,998
Total	29,365

- (2) Information on basis for understanding revenue from contracts with customers
Information on basis for understanding revenue from contracts with customers is stated in “4. Matters concerning accounting policies, (4) Basis for recognizing revenue and expenses.”

7. Changes in presentations

(Consolidated statement of income)

“Insurance claim income” (11,634 thousand yen for the fiscal year ended March 31, 2022), which was previously shown as a separate line item under “Non-operating income,” is included in “Other” from the fiscal year ended March 31, 2022, due to insignificance.

8. Significant accounting estimates

(1) Deferred tax assets

- 1) Amounts on the consolidated balance sheet as of March 31, 2022

(In thousands of yen)	
	As of March 31, 2022
Deferred tax assets	266,727

- 2) Information on details of significant accounting estimates for identified items

Deferred tax assets are recognized for future deductible temporary differences when the Group determines that the future taxable income is sufficient and thus the deferred tax assets are recoverable. The Group estimates taxable income based on the future business plans, with sales volumes, sales prices, and raw material prices as key assumptions. The recoverability of deferred tax assets depends on how future taxable income is estimated; thus, when conditions or assumptions used for the estimates changes due to changes in the business environment, the amount of deferred tax assets may be reduced and the tax expenses may be recognized.

(2) Allowance for doubtful accounts on long-term advance payments-other

- 1) Amounts on the consolidated balance sheet as of March 31, 2022

(In thousands of yen)	
	As of March 31, 2022
Allowance for doubtful accounts	2,447,727

- 2) Information on details of significant accounting estimates for identified items

The Company decided to invest in Duong Lam Joint Stock Company (hereinafter, “DL”), a Vietnamese mining company, for the purpose of the stable long-term procurement of zirconium ore which is the main raw material used by Vietnam Rare Elements Chemical Joint Stock Company (hereinafter, “VREC”), a consolidated subsidiary of the Company, and negotiated with Solid Success International Limited (hereinafter, “SSI”) which intended to reorganize through an acquisition of DL. In accordance with the stock transfer agreement with SSI’s shareholders, the Company paid 2,447,727 thousand yen in cash by January 2019 for the acquisition of SSI’s shares.

While the execution of the investment is subject to the performance obligation by the relevant parties as stipulated in the said agreement, such performance obligation has not yet been confirmed.

Accordingly, the amount has been accounted for as long-term advance payments-other.

However, the acquisition process had been pending due to the ongoing lawsuit which was filed in June 2019 between SSI's subsidiaries and associates and DL's shareholders regarding the transfer of shares. In addition, DL's business activities had stalled as a result of the lawsuit, and the procurement of zirconium ore based on the purchase and sale agreement between VREC and DL had also stalled.

The Company had kept negotiating to improve the situation and resume the DL's restructuring and business activities.

However, since there is no prospect of a settlement, the Company comprehensively determined it would be highly unlikely that the obligation stated in the stock transfer agreement with SSI's shareholders, the calculation of DL's stock value, the resumption of DL's business activities and the obligation of the purchase and sale agreement between VREC and DL, would be performed in early stage, and thus decided to cancel the stock transfer agreement entered with SSI's shareholders. Besides, since it was unlikely for DL to resume business activities at an early date, the Company determined long-term advance payments to SSI's shareholders, which was collateralized by the DL's stock value, would not be collectible. Accordingly, the Company reserved all amount of long-term advance payments-other as allowance for doubtful accounts and charged 1,804,727 thousand yen as provision of allowance for doubtful accounts under extraordinary losses. The major assumption used for the valuation of long-term advance payments-other was the DL's stock value.

Since the aforementioned major assumption is subject to future uncertainties, it may give a significant impact on the consolidated financial statements in the following fiscal year.

(Notes to the Consolidated Balance Sheet)

Accumulated depreciation of property, plant and equipment 28,030,769 thousand yen

(Notes to the Consolidated Statement of Income)

1. Provision of allowance for doubtful accounts on long-term advance payments-other

Upon the cancellation of the zirconium ore purchase and sale agreement between VREC, a consolidated subsidiary of the Company, and DL, a mining company located in the south of Vietnam, the Company accounted for a loss on valuation of long-term advance payments-other as provision of allowance for doubtful accounts under extraordinary losses.

(Notes to the Consolidated Statement of Changes in Equity)

1. Class and total number of outstanding shares as of March 31, 2022

Common stock 24,400,000 shares

2. Dividends

(1) Dividend amount

Resolution	Class	Total amount of dividends (Thousand yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors meeting on May 20, 2021	Common stock	242,791	10.00	March 31, 2021	June 23, 2021
Board of Directors meeting on November 18, 2021	Common stock	315,788	13.00	September 30, 2021	December 1, 2021
Total					

(2) Dividends whose record date is during the current fiscal year, but whose effective date is after the end of the current fiscal year

Resolution (planned)	Class	Source of dividends	Total amount of dividends (Thousand yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors meeting on May 17, 2022	Common stock	Retained earnings	242,911	10.00	March 31, 2022	June 24, 2022

(Notes on Financial Instruments)

1. Status of financial instruments

(1) Policy on financial instruments

The Group invests funds only in highly stable financial instruments without the risk of loss of principals and obtains necessary funds through borrowings from financial institutions such as banks.

As a policy, the Group uses derivative transactions only when actual demand arises.

(2) Details of financial instruments, their risks and risk management system

It is necessary to manage customers' credit risk for operating receivables such as notes and accounts receivable-trade. In accordance with the credit management rules, the marketing department and the management planning department periodically monitor customers' credit status for operating receivables, review payment terms and balances by customers, and ensure early identification and mitigation of potential bad debt caused by deterioration in their financial conditions or other factors. Operating receivables denominated in foreign currencies arising from exports and operating payables denominated in foreign currencies arising from imports are exposed to the foreign currency fluctuation risk. The Company monitors the outstanding position of receivables and payables denominated in foreign currencies, and performs foreign currency transactions in accordance with the foreign currency transaction manual. As a basic policy, the Company makes payments in foreign currencies using foreign funds received, and exchanges them into Japanese yen or purchases foreign currencies as necessary.

Investment securities, which consist of equity securities, are exposed to the market price fluctuation risk. The Company monitors their market prices and financial status of issuers on a periodical basis.

The borrowings, which are used as short-term and mid-term working capital and long-term capital expenditures, are exposed to the liquidity risk. To manage the liquidity risk, the finance department prepares and updates the monthly cash flow projection based on reports from each department, and maintains a certain level of liquidity on hand.

The derivative transactions that the Company enters are currency swaps for the purpose of hedging foreign currency fluctuation risks associated with loans receivable denominated in foreign currencies. Since counterparties of these currency swaps are domestic banks with high credit rating, the Company regards that the credit risk is minimal. Derivative transactions are properly conducted in accordance with the internal rules.

(3) Supplemental explanation for the fair value of financial instruments

The fair value of financial instruments includes values based on market prices and values which are reasonably calculated in case market prices are not readily available. Since certain assumptions are used for the calculation, values may vary when different assumptions are applied.

2. Matters concerning fair value of financial instruments

Carrying value on the consolidated balance sheet, fair value and the differences between the two are presented below. Equity securities without market prices are not included in the following tables. (Please see (Note 2) below.)

(In thousands of yen)

	Carrying value	Fair value	Difference
(1) Cash and deposits	8,840,381	8,840,381	—
(2) Notes and accounts receivable-trade	6,025,223	6,025,223	—
(3) Investment securities	690,382	690,382	—
Assets, total	15,555,986	15,555,986	—
(1) Notes and accounts payable-trade	873,067	873,067	—
(2) Short-term borrowings	2,900,000	2,900,000	—
(3) Accounts payable-other	959,241	959,241	—
(4) Current portion of long-term borrowings and long-term borrowings	19,041,273	19,093,935	52,662
Liabilities, total	23,773,582	23,826,245	52,662
Derivative transactions (*1)	[222,396]	[222,396]	—
Derivative transactions, total	[222,396]	[222,396]	—

(*1) Assets and liabilities from derivative transactions are netted, with net liabilities presented in [parentheses].

Notes: 1. Fair value measurement of financial instruments and matters concerning securities

Assets

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

The carrying value is deemed as the fair value since it is scheduled to be settled in a short period of time.

(3) Securities

Securities consist of domestic negotiable certificates of deposit, and the carrying value is deemed as the fair value since it is scheduled to be settled in a short period of time.

(4) Investment securities

The fair value is based on the price at securities exchanges.

Liabilities

(1) Notes and accounts payable-trade, (2) Short-term borrowings and (3) Accounts payable-other

The carrying value is deemed as the fair value since it is scheduled to be settled in a short period of time.

(4) Current portion of long-term borrowings and long-term borrowings

The fair value of current portion of long-term borrowings and long-term borrowings is determined by discounting the total of principal and interests using an interest rate that would be applied to similar new borrowings.

Derivative transactions

The fair value of derivative transactions is based on prices, etc. provided by financial institutions with which the Company has transactions.

2. Equity securities, etc. without market prices

Classification	Carrying value (Thousand yen)
Unlisted equity securities Investment securities	47,250

3. Matters concerning fair value hierarchy of financial instruments

The Company classifies fair value of financial instruments into the following three categories depending on whether the inputs are observable and significant.

- Level 1 fair value: Fair value measured by using quoted value in active markets as inputs for assets or liabilities subject to the fair value measurement, of observable inputs for fair value measurement.
- Level 2 fair value: Fair value measured by using inputs other than those for Level 1, of observable inputs for fair value measurement.
- Level 3 fair value: Fair value measured by using unobservable inputs for fair value measurement.

When multiple inputs with significant impacts on the fair value measurement are used, the fair value is classified into the level that has the highest priority in the fair value measurement among the levels to which those inputs belong.

(1) Financial instruments whose carrying value is their fair value

(In millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities	690	—	—	690
Derivative transactions (*1)				
Currency-related	—	[222]	—	222

(*1) Assets and liabilities from derivative transactions are netted, with net liabilities presented in [parentheses].

(2) Financial instruments whose carrying value is not their fair value

Notes are omitted for cash and deposits and notes and accounts receivable-trade, since their fair value approximates their carrying value due to short maturities.

(In millions of yen)

Classification	Fair value				Carrying value	Difference
	Level 1	Level 2	Level 3	Total		
Current portion of long-term borrowings and long-term borrowings	—	19,093	—	19,093	19,041	52

Note: 1. Fair value measurement of financial instruments and matters concerning securities

Investment securities

Listed equity securities are measured at quoted value since they are traded in active markets.

Derivative transactions

The fair value of derivative transactions is based on prices, etc. provided by financial institutions with which the Company has transactions. The fair value is classified into Level 2.

Current portion of long-term borrowings and long-term borrowings

The fair value of current portion of long-term borrowings and long-term borrowings is determined by discounting the total of principal and interests using an interest rate that would be applied to similar new borrowings.

(Notes on Per Share Information)

- (1) Net assets per share 1,284.24yen
(2) Profit per share 76.15 yen

(Notes on Significant Subsequent Events)

None

Non-Consolidated Financial Statements

(April 1, 2021 - March 31, 2022)

Non-Consolidated Balance Sheet

(As of March 31, 2022)

(In thousands of yen)

Description	Amount	Description	Amount
(Assets)		(Liabilities)	
Current assets	26,575,470	Current liabilities	10,170,409
Cash and deposits	5,292,056	Notes payable-trade	18,994
Notes receivable	89,292	Electronically recorded obligations - operating	421,208
Electronically recorded monetary claims - operating	583,803	Accounts payable - trade	864,137
Accounts receivable - trade	8,351,257	Short-term borrowings	2,900,000
Finished goods	3,849,924	Current portion of long-term borrowings	3,298,497
Work in process	1,982,005	Accounts payable-other	754,342
Raw materials and supplies	4,131,128	Accrued expenses	114,249
Advance payments to suppliers	122,993	Income taxes payable	1,217,761
Prepaid expenses	48,972	Deposits received	21,347
Accounts receivable - other	2,042,376	Notes payable - facilities	64,881
Short-term loans receivable	80,000	Provision for bonuses	447,887
Other	1,658	Provision for bonuses for directors (and other officers)	32,804
Non-current assets	31,320,143	Other	14,297
Property, plant and equipment	15,603,681	Non-current liabilities	16,057,343
Buildings	4,367,156	Long-term borrowings	15,742,776
Structures	1,187,567	Guarantee deposits received	65,031
Machinery and equipment	5,175,309	Asset retirement obligations	27,139
Vehicles	14,147	Other	222,396
Tools, furniture and fixtures	315,344	Total liabilities	26,227,753
Land	2,235,721	(Net assets)	
Construction in progress	2,308,434	Shareholders' equity	31,356,985
Intangible assets	614,214	Share capital	787,100
Patent right	22,477	Capital surplus	1,298,198
Telephone subscription right	2,543	Legal capital surplus	1,194,589
Software	322,408	Other capital surplus	103,609
Software in progress	266,785	Retained earnings	29,311,872
Investments and other assets	15,102,247	Legal retained earnings	35,000
Investment securities	737,632	Other retained earnings	29,276,872
Shares of subsidiaries and associates	2,967,796	Reserve for tax purpose reduction entry of non-current assets	94,312
Investments in capital of subsidiaries and associates	325,120	General reserve	27,000,000
Long-term loans receivable	10,327,681	Retained earnings brought forward	2,182,560
Investments in capital	40,000	Treasury shares	(40,185)
Long-term prepaid expenses	133,129	Valuation and translation adjustments	310,875
Prepaid pension costs	408,925	Valuation difference on available-for-sale securities	310,875
Lease and guarantee deposits	129,276	Total net assets	31,667,860
Deferred tax assets	49,750		
Long-term advance payments - other	2,447,727		
Other	49,901		
Allowance for doubtful accounts	(2,514,693)		
Total assets	57,895,613	Total liabilities and net assets	57,895,613

Note: Figures presented in the financial statements are rounded down to the nearest thousand yen.

Non-Consolidated Statement of Income

(April 1, 2021 - March 31, 2022)

(In thousands of yen)

Description	Amount	
Net sales		28,224,612
Cost of sales		19,853,925
Gross profit		8,370,686
Selling, general and administrative expenses		4,392,228
Operating profit		3,978,458
Non-operating income		
Interest and dividend income	189,076	
Purchase discounts	13,520	
Foreign exchange gains	1,125,650	
Subsidy income	68,470	
Other	120,986	1,517,703
Non-operating expenses		
Loss on valuation of derivatives	222,396	
Interest expenses	82,972	
Other	18,245	323,614
Ordinary profit		5,172,547
Extraordinary losses		
Loss on disposal of non-current assets	112,707	
Provision of allowance for doubtful accounts	1,804,727	1,917,434
Profit before income taxes		3,255,112
Income taxes-current	1,495,542	
Income taxes-deferred	481,274	1,976,816
Profit		1,278,295

Note: Figures presented in the financial statements are rounded down to the nearest thousand yen.

Non-Consolidated Statement of Changes in Equity

(April 1, 2021 – March 31, 2022)

(In thousands of yen)

	Shareholders' equity								
	Share capital	Capital surplus			Legal retained earnings	Retained earnings			Total retained earnings
		Legal capital surplus	Other capital surplus	Total capital surplus		Other retained earnings			
						Reserve for advanced depreciation of non-current assets	General reserve	Retained earnings brought forward	
Balance as of April 1, 2021	787,100	1,194,589	84,771	1,279,360	35,000	94,312	26,000,000	2,462,844	28,592,156
Changes in items during period									
Provision of general reserve							1,000,000	(1,000,000)	—
Dividends from surplus								(558,580)	(558,580)
Profit								1,278,295	1,278,295
Purchase of treasury shares									
Disposal of treasury shares			18,838	18,838					
Net changes in items other than shareholders' equity									
Total changes in items during period	—	—	18,838	18,838	—	—	1,000,000	(280,284)	719,715
Balance as of March 31, 2022	787,100	1,194,589	103,609	1,298,198	35,000	94,312	27,000,000	2,182,560	29,311,872

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance as of April 1, 2021	(44,742)	30,613,873	397,782	397,782	31,011,656
Changes in items during period					
Provision of general reserve		—			—
Dividends from surplus		(558,580)			(558,580)
Profit		1,278,295			1,278,295
Purchase of treasury shares	(96)	(96)			(96)
Disposal of treasury shares	4,653	23,491			23,491
Net changes in items other than shareholders' equity			(86,906)	(86,906)	(86,906)
Total changes in items during period	4,557	743,111	(86,906)	(86,906)	656,204
Balance as of March 31, 2022	(40,185)	31,356,985	310,875	310,875	31,667,860

Notes to the Non-Consolidated Financial Statements

(Notes on Significant Accounting Policies)

1. Basis and methods for valuation of assets
 - (1) Basis and method for valuation of securities
 - 1) Shares of subsidiaries and associates and investments in capital of subsidiaries and associates:
Stated at cost determined by the moving-average method.
 - 2) Available-for-sale securities
Securities other than equity securities without market prices:
Stated at fair value based on market prices as of the balance sheet date. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Costs of securities sold are determined by the moving-average method.
Equity securities without market prices:
Stated at cost determined by the moving-average method.
 - (2) Basis and method for valuation of inventories
Inventories are measured at the lower of cost determined by the weighted-average method or net selling value.
 - (3) Basis and method for valuation of net receivables and payables arising from derivatives transactions
Stated at fair value.
2. Depreciation or amortization method for non-current assets
 - (1) Property, plant and equipment
The declining-balance method is applied.
However, the straight-line method is applied for buildings (excluding building fixtures) acquired on or after April 1, 1998 and building fixtures and structures acquired on or after April 1, 2016.
 - (2) Intangible assets
The straight-line method is applied.
Internal-use software is amortized over the estimated period of internal use (5 years).
3. Basis for provision and allowance
 - (1) Allowance for doubtful accounts
The Company provides the allowance for doubtful accounts at the amount determined based on the historical experience of bad debt with respect to ordinary receivables and an estimate of uncollectible amount determined by reference to specific doubtful receivables of customers experiencing financial difficulties.
 - (2) Provision for bonuses
The Company provides the provision for bonuses to meet the bonus payment to employees at the estimated amount which the Company is obligated to pay as of the balance sheet date.
 - (3) Provision for retirement benefits
The Company provides the provision for retirement benefits to meet the retirement benefit payment to employees based on the estimated amount of retirement benefit obligation and plan assets as of the balance sheet date.
 - 1) Method of attributing retirement benefit obligation to the period
The benefit formula basis is used as a method of attributing retirement benefit obligation to the period through the end of the fiscal year.
 - 2) Treatment of actuarial differences
Actuarial differences are amortized commencing in the following year after the differences are recognized, using the straight-line method over a period within the average remaining service years for employees (5 years) at the time of recognition of such differences for respective fiscal year.
 - (4) Provision for bonuses for directors (and other officers)
The provision for bonuses for directors (and other officers) is provided to meet the payment to directors

(and other officers) at the estimated amount.

4. Basis for recognizing revenue and expenses

The Company determines that performance obligations on sales of the Company's products are satisfied at the point in time at which the products are delivered to the customers, since the legal titles, physical possessions, significant risks and rewards of ownership of the products are transferred and the customers obtain the control of the products at the point in time of delivery. The Company also determines the amount of revenue at the amount calculated by deducting discounts, rebates and refunds due to returned goods, etc. from the promised considerations under the contracts with customers.

5. Other significant matters for the preparation of financial statements

(1) Accounting treatment of retirement benefits

Accounting treatment for unrecognized actuarial differences and unrecognized past service costs of retirement benefits are different from those of the consolidated financial statements.

(2) Basis for foreign currency translation of significant assets and liabilities denominated in foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the prevailing rates of exchange at the balance sheet date. Exchange gains or losses resulting from translation of assets and liabilities are recognized in income or expenses.

(3) Significant hedge accounting method

1) Hedge accounting method

The outstanding interest rate swaps qualify for exceptional treatment, and thus the exceptional hedge accounting treatment is applied.

2) Hedging instruments and hedged items

Hedging instruments – interest rate swaps

Hedged items – borrowings

3) Hedging policy

As a basic policy, the Company uses hedging instruments within certain defined limits for the purpose of hedging the risk of interest rate fluctuations.

4) Method to assess hedge effectiveness

The assessment of hedge effectiveness is omitted since the interest rate swaps qualify for exceptional treatment.

6. (Changes in accounting policies)

(Application of accounting standard for revenue recognition, etc.)

Applying the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, hereinafter, the "Accounting Standard for Revenue Recognition"), etc. effective from the beginning of the fiscal year ended March 31, 2022, the Company recognizes revenue when a control of a promised good or service is transferred to a customer at the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services.

In accordance with the transitional treatment prescribed in the proviso to Paragraph 84 of the Accounting Standard for Revenue Recognition, the Company adjusted the beginning balance of retained earnings for the cumulative effect of retroactive application of the new accounting policy prior to the beginning of the fiscal year ended March 31, 2022, and then has applied the new accounting policy.

From this change, there is no impact on the profit or loss for the fiscal year ended March 31, 2022. Also, there is no impact on the beginning balance of retained earnings.

(Accounting standard for fair value measurement, etc.)

Effective from the beginning of the fiscal year ended March 31, 2022, the Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019, hereinafter, the "Accounting Standards for FVM"), etc. In accordance with the transitional treatment prescribed in Paragraph 19 of the Accounting Standards for FVM and Paragraph 44-2 of "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Company has applied this new accounting policy prospectively.

7. Revenue recognition
 (Information on basis for understanding revenue from contracts with customers)
 Information on basis for understanding revenue from contracts with customers is omitted since it is stated in "Notes on Revenue Recognition" of notes to the consolidated financial statements.

8. Changes in presentations
 (Consolidated statement of income)
 "Insurance claim income" (8,419 thousand yen for the fiscal year ended March 31, 2022), which was previously shown as a separate line item under "Non-operating income," is included in "Other" from the fiscal year ended March 31, 2022, due to insignificance.

9. Significant accounting estimates

(1) Deferred tax assets

1) Amounts on the balance sheet as of March 31, 2022

	(In thousands of yen)
	As of March 31, 2022
Deferred tax assets	49,750

2) Information on details of significant accounting estimates for identified items

Information on details of significant accounting estimates for identified items is the same as those described in "8 Significant accounting estimates" of notes to the consolidated financial statements.

(2) Allowance for doubtful accounts

Details of allowance for doubtful accounts is the same as those described in "8 Significant accounting estimates" of notes to the consolidated financial statements.

(Notes to the Non-Consolidated Balance Sheet)

1. Accumulated depreciation of property, plant and equipment	27,092,397 thousand yen
2. Monetary claims to/ debts from subsidiaries and associates	
Monetary claims	15,404,396 thousand yen
Monetary debts	261,520 thousand yen

(Notes to the Non-Consolidated Statement of Income)

Transactions with subsidiaries and associates

Operating transactions

 Net sales
 6,811,885 thousand yen |

 Purchase of goods
 2,389,188 thousand yen |

 Selling, general and administrative expenses
 443,424 thousand yen |

Non-operating transactions
 170,769 thousand yen |

(Notes to the Non-Consolidated Statement of Changes in Equity)

Class and total number of treasury shares as of March 31, 2022

 Common stock
 108,889 shares |

(Notes on Tax Effect Accounting)

1. Significant components of deferred tax assets and liabilities

Deferred tax assets:

Provision for bonuses	137,053 thousand yen
Lump-sum depreciable assets	12,115 thousand yen
Social insurance premium	21,146 thousand yen
Loss on valuation of inventories	65,301 thousand yen
Enterprise tax payable	65,178 thousand yen
Gain on change in equity	45,390 thousand yen
Impairment losses	83 thousand yen
Loss on valuation of investments in capital of subsidiaries and associates	91,168 thousand yen
Loss on valuation of investment securities	14,475 thousand yen
Loss on valuation of shares of subsidiaries and associates	133,852 thousand yen
Research and development expenses	162 thousand yen
Allowance for doubtful accounts	771,820 thousand yen
Other	52,497 thousand yen
Subtotal	<u>1,410,245 thousand yen</u>
Valuation allowances	<u>(1,056,707) thousand yen</u>
Total deferred tax assets	<u>353,538 thousand yen</u>

Deferred tax liabilities:

Valuation difference on available-for-sale securities	137,071 thousand yen
Prepaid pension costs	125,131 thousand yen
Reserve for tax purpose reduction entry of non-current assets	41,584 thousand yen
Total deferred tax liabilities	<u>303,787 thousand yen</u>
Net deferred tax assets	<u>49,750 thousand yen</u>

(Notes on Transactions with Related Parties)

(In thousands of yen)

Type	Name of companies	Ownership ratio of voting rights	Relationship	Transaction details	Amount of transaction	Account name	Balance as of the end of year
Subsidiary	Vietnam Rare Elements Chemical Joint Stock Company	Owned Direct 99.99%	Interlocking directors	Loan of funds (* 1)	1,341,530	Long-term loans receivable	9,936,721
				Receipt of interests (* 1)	68,655		
				Temporary payment for plant construction	4,046	Accounts receivable-other	611,470
Subsidiary	DKK America Materials, Inc.	Owned Direct 100.00%	Sales of the Company's products	Sales of products (* 2)	4,324,142	Accounts receivable-trade	2,823,730
Subsidiary	DKK (Shanghai) Materials Trading Co., Ltd.	Owned Direct 66.67%	Interlocking directors Sales of the Company's products, etc.	Sales of products, etc. (* 2)	1,963,824	Accounts receivable-trade	1,247,233
Associate	Shandong Guangyin DKK New Materials Co., Ltd.	Owned Direct 34.00%	Interlocking directors Fund support	Loan of funds (* 1)	—	Short-term loans receivable	60,000
						Long-term loans receivable	387,300
				Collection of funds	30,000	—	—

Policies to determine terms and conditions

(*1) As to loan of funds, interest rates are determined based on market rates.

(*2) As to sales of products, prices are determined with reference to market prices.

(Notes on Per Share Information)

1. Net assets per share 1,303.68 yen
2. Earnings per share 52.63 yen

(Notes on Significant Subsequent Events)

None

Independent Auditor's Report
(English Translation)

May 16, 2022

To the Board of Directors
Daiichi Kigenso Kagaku Kogyo Co., Ltd.

Ernst & Young ShinNihon LLC

Osaka office

Satoshi Uchida, CPA
Designated Limited Liability Partners
Engagement Partner
Miho Ueda, CPA
Designated Limited Liability Partners
Engagement Partner

Opinion

Pursuant to Article 444, Paragraph 4 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the notes to the consolidated financial statements of Daiichi Kigenso Kagaku Kogyo Co., Ltd. (the "Company") for the fiscal year from April 1, 2021, through March 31, 2022.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and results of operations of Daiichi Kigenso Kagaku Kogyo Co., Ltd., which consists of the Company and its consolidated subsidiaries, for the period covered by the consolidated financial statements in conformity with accounting principles generally accepted in Japan.

Basis for the Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibility under the auditing standards is stated in "Auditor's Responsibility for the Audit of the Consolidated Financial Statements." We are independent of the Company and its consolidated subsidiaries in accordance with the provisions related to professional ethics in Japan, and are fulfilling other ethical responsibilities as an auditor. We believe that we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Other statements

The other statements are the Business Report and its attachments. Management is responsible for the preparation and disclosure of these statements. The Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for monitoring the execution of the duties of the Directors in the establishment and implementation of reporting processes for these other statements.

These other statements are not subject to our Audit Opinion of the Consolidated Financial Statements, and we express no opinion regarding their contents.

Our responsibility in the audit of the Consolidated Financial Statements is to read these other statements and, in that process, consider whether or not there are any material discrepancies between the contents of these other statements and the Consolidated Financial Statements or the knowledge that we have obtained in the process of our audit. It is also our responsibility to pay careful attention as to whether or not there are any signs of material errors in these other statements other than such material discrepancies.

If, based on our work, we determine that there are any material errors in these other statements, we are

required to report that fact.

We found no matters in these other statements that require reporting by us.

Responsibilities of Management, 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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the 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 whether it is appropriate to prepare the consolidated financial statements in accordance with the premise of a going concern, and for disclosing matters relating to going concern when it is required to do so in accordance with accounting principles generally accepted in Japan.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for monitoring the execution of Directors' duties related to designing and operating the financial reporting process.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

Our responsibility is 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 express an opinion on the consolidated financial statements from an independent standpoint in an audit report, based on our audit. Misstatements can occur as a result of fraud or error, and are deemed material if they can be reasonably expected to, either individually or collectively, influence the decisions of users taken on the basis of the consolidated financial statements.

We make professional judgment in the audit process in accordance with auditing standards generally accepted in Japan, and perform the following while maintaining professional skepticism.

- Identify and assess the risks of material misstatement, whether due to fraud or error. Design and implement audit procedures to address the risks of material misstatement. The audit procedures shall be selected and applied as determined by the auditor. In addition, sufficient and appropriate audit evidence shall be obtained to provide a basis for the audit opinion.
- In making those risk assessments, the auditor considers internal control relevant to the entity's audit in order to design audit procedures that are appropriate in the circumstances, although the purpose of the audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control.
- Assess the appropriateness of accounting policies adopted by management and the method of their application, as well as the reasonableness of accounting estimates made by management and the adequacy of related notes.
- Determine whether it is appropriate for management to prepare the consolidated financial statements on the premise of a going concern and, based on the audit evidence obtained, determine whether there is a significant uncertainty in regard to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If there is a significant uncertainty concerning the premise of a going concern, the auditor is required to call attention to the notes to the consolidated financial statements in the audit report, or if the notes to the consolidated financial statements pertaining to the significant uncertainty are inappropriate, issue a modified opinion on the consolidated financial statements. While the conclusions of the auditor are based on the audit evidence obtained up to the date of the audit report, depending on future events or conditions, an entity may be unable to continue as a going concern.
- Besides assessing whether the presentation of and notes to the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, assess the presentation, structure, and content of the consolidated financial statements including related notes, and whether the consolidated financial statements fairly present the transactions and accounting events on which they are based.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the Company and its consolidated subsidiaries in order to express an opinion on the consolidated financial statements. The auditor is responsible for instructing, supervising, and implementing the audit of the consolidated financial statements, and is solely responsible for the audit opinion.

The auditor reports to Audit & Supervisory Board Members and the Audit & Supervisory Board regarding the scope and timing of implementation of the planned audit, material audit findings including material weaknesses in internal control identified in the course of the audit, and other matters required under the auditing standards.

The auditor reports to Audit & Supervisory Board Members and the Audit & Supervisory Board regarding the observance of provisions related to professional ethics concerning independence in Japan as well as matters that are reasonably considered to have an impact on the auditor's independence and any safeguards that are in place to reduce or eliminate obstacles.

Interest

Our firm and engagement partners have no interests in the Company or its consolidated subsidiaries requiring disclosure under the provisions of the Certified Public Accountants Act of Japan.

Notice to Readers:

The original consolidated financial statements, which consist of the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in equity and the notes to the consolidated financial statements, are written in Japanese.

Independent Auditor's Report
(English Translation)

May 16, 2022

To the Board of Directors
Daiichi Kigenso Kagaku Kogyo Co., Ltd.

Ernst & Young ShinNihon LLC

Osaka office

Satoshi Uchida, CPA
Designated Limited Liability Partners
Engagement Partner
Miho Ueda, CPA
Designated Limited Liability Partners
Engagement Partner

Opinion

Pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited the accompanying financial statements, which comprise the balance sheet, the statement of income, the statement of changes in net assets and the related notes, and the accompanying supplementary schedules (the "Non-consolidated Financial Statements") of Daiichi Kigenso Kagaku Kogyo Co., Ltd. (the "Company") for the 66th fiscal year from April 1, 2021, through March 31, 2022.

In our opinion, the financial statements and the accompanying supplementary schedules referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2022 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in Japan.

Basis for the Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibility under the auditing standards is stated in "Auditor's Responsibility for the Audit of the Financial Statements and the Accompanying Supplementary Schedules." We are independent of the Company in accordance with the provisions related to professional ethics in Japan, and are fulfilling other ethical responsibilities as an auditor. We believe that we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Other statements

The other statements are the Business Report and its attachments. Management is responsible for the preparation and disclosure of these statements. The Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for monitoring the execution of the duties of the Directors in the establishment and implementation of reporting processes for these other statements.

These other statements are not subject to our Audit Opinion of the Non-consolidated Financial Statements, and we express no opinion regarding their contents.

Our responsibility in the audit of the Non-consolidated Financial Statements is to read these other statements and, in that process, consider whether or not there are any material discrepancies between the contents of these other statements and the Non-consolidated Financial Statements or the knowledge that we have obtained in the process of our audit. It is also our responsibility to pay careful attention as to whether or not there are any signs of material errors in these other statements other than such material discrepancies.

If, based on our work, we determine that there are any material errors in these other statements, we are required to report that fact.

We found no matters in these other statements that require reporting by us.

Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board for the Financial Statements and the Accompanying Supplementary Schedules

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

In preparing the financial statements and the accompanying supplementary schedules, management is responsible for assessing whether it is appropriate to prepare the financial statements and the accompanying supplementary schedules in accordance with the premise of a going concern, and for disclosing matters relating to going concern when it is required to do so in accordance with accounting principles generally accepted in Japan.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for monitoring the execution of Directors' duties related to designing and operating the financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements and the Accompanying Supplementary Schedules

Our responsibility is to obtain reasonable assurance about whether the financial statements and the accompanying supplementary schedules as a whole are free from material misstatement, whether due to fraud or error, and to express an opinion on the financial statements and the accompanying supplementary schedules from an independent standpoint in an audit report, based on our audit. Misstatements can occur as a result of fraud or error, and are deemed material if they can be reasonably expected to, either individually or collectively, influence the decisions of users taken on the basis of the financial statements and the accompanying supplementary schedules.

We make professional judgment in the audit process in accordance with auditing standards generally accepted in Japan, and perform the following while maintaining professional skepticism.

- Identify and assess the risks of material misstatement, whether due to fraud or error. Design and implement audit procedures to address the risks of material misstatement. The audit procedures shall be selected and applied as determined by the auditor. In addition, sufficient and appropriate audit evidence shall be obtained to provide a basis for the audit opinion.
- In making those risk assessments, the auditor considers internal control relevant to the entity's audit in order to design audit procedures that are appropriate in the circumstances, although the purpose of the audit of the financial statements and the accompanying supplementary schedules is not to express an opinion on the effectiveness of the entity's internal control.
- Assess the appropriateness of accounting policies adopted by management and the method of their application, as well as the reasonableness of accounting estimates made by management and the adequacy of related notes.
- Determine whether it is appropriate for management to prepare the financial statements and the accompanying supplementary schedules on the premise of a going concern and, based on the audit evidence obtained, determine whether there is a significant uncertainty in regard to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If there is a significant uncertainty concerning the premise of a going concern, the auditor is required to call attention to the notes to the financial statements and the accompanying supplementary schedules in the audit report, or if the notes to the financial statements and the accompanying supplementary schedules pertaining to the significant uncertainty are inappropriate, issue a modified opinion on the financial statements and the accompanying supplementary schedules. While the conclusions of the auditor are based on the audit evidence obtained up to the date of the audit report, depending on future events or conditions, an entity may be unable to continue as a going concern.
- Besides assessing whether the presentation of and notes to the financial statements and the accompanying supplementary schedules are in accordance with accounting principles generally accepted in Japan, assess the presentation, structure, and content of the financial statements and the accompanying supplementary schedules including related notes, and whether the financial statements and the accompanying

supplementary schedules fairly present the transactions and accounting events on which they are based.

The auditor reports to Audit & Supervisory Board Members and the Audit & Supervisory Board regarding the scope and timing of implementation of the planned audit, material audit findings including material weaknesses in internal control identified in the course of the audit, and other matters required under the auditing standards.

The auditor reports to Audit & Supervisory Board Members and the Audit & Supervisory Board regarding the observance of provisions related to professional ethics concerning independence in Japan as well as matters that are reasonably considered to have an impact on the auditor's independence and any safeguards that are in place to reduce or eliminate obstacles.

Interest

Our firm and engagement partners have no interests in the Company requiring disclosure under the provisions of the Certified Public Accountants Act of Japan.

Notice to Readers:

The original non-consolidated financial statements, which consist of the balance sheet, the statement of income, the statement of changes in equity, the notes to the financial statements and the supplementary schedules thereof, are written in Japanese.

Audit Report (English Translation)

The Audit & Supervisory Board has prepared this Audit Report following deliberations based on the respective audit reports prepared by Audit & Supervisory Board Members in relation to the execution of duties by Directors for the 65th fiscal term from April 1, 2021 to March 31, 2022. The report is as follows.

1. Method and Description of Audit by Audit & Supervisory Board Members and the Audit & Supervisory Board
 - (1) The Audit & Supervisory Board determined the audit policy, allocation of duties and other relevant matters, received reports from each Audit & Supervisory Board Member on the progress and results of his/her audit, in addition to receiving reports from Directors, etc. and the Accounting Auditor on the execution status of their duties, and sought explanations as necessary.
 - (2) Each Audit & Supervisory Board Member, based on the audit standards for Audit & Supervisory Board Members established by the Audit & Supervisory Board, followed the audit policy, allocation of duties and other relevant matters, communicated with Directors, Executive Officers, and Internal Audit Division and other employees, etc., endeavored to collect information and develop an environment for the audit, and implemented audits via the following methods.
 - 1) We attended the meetings of the Board of Directors and other important meetings, received reports from Directors, employees, etc. on the execution status of their duties, sought explanations as necessary, reviewed important approval documents, etc., and investigated the status of operations and assets at the head office and principal places of business. With respect to subsidiaries, we received reports periodically from Directors in charge about the details of their business at the Board of Directors Meeting, and then sought explanations as necessary. With respect to overseas subsidiaries, we communicated and exchanged information via online meeting tools on the global expansion of COVID-19, and received reports from overseas subsidiaries on their business and business condition.
 - 2) We also received reports from Directors and other employees, etc., on development and execution status of the system, and sought explanations as necessary, and received reports periodically from the Internal Auditing Department and expressed opinions about the content of the resolution passed by the Board of Directors regarding the development of a system to ensure that Directors comply with laws, ordinances and the Articles of Incorporation in executing their duties and other systems stipulated in paragraphs 1 and 3 of Article 100 of the Ordinance for Enforcement of the Companies Act that are required to ensure proper operations of a company group comprised of a stock company and its subsidiaries, as well as the status of the system developed pursuant to such resolution (i.e., internal control system) set forth in the business report.
 - 3) We monitored and verified whether or not the Accounting Auditor had maintained its independence and whether or not it had conducted its audit properly, received reports from the Accounting Auditor on the execution status of its duties, and sought explanations as necessary. In addition, we were notified by the Accounting Auditor that it is equipped with a system for ensuring that duties are performed properly (matters listed in the items of Article 131 of the Company Accounting Ordinance) in accordance with the Quality Control Standards for Audits (issued by the Business Accounting Council on October 28, 2005), etc., and sought explanations as necessary. Besides, we hold consultations with Ernst & Young ShinNihon LLC on the major issues in auditing, and received reports on execution status of the Audit, and sought explanations as necessary.

Based on the above methods, we examined the Business Report and its supplementary schedules, Nonconsolidated Financial Statements (i.e., Non-consolidated Balance Sheets, Non-consolidated Statements of Income, Non-consolidated Statements of Changes in Net Assets and Notes to the Non-Consolidated Financial Statements) and their supplementary schedules as well as the Consolidated Financial Statements (i.e., Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Changes in Net Assets and Notes to the Consolidated Financial Statements) for the fiscal year under review.

2. Audit Results

(1) Results of audit of Business Report, etc.

1. In our opinion, the Business Report and the supplementary schedules are in compliance with laws, ordinances and the Articles of Incorporation, and fairly represent the Company's position.
2. No material facts were identified regarding misconduct or violation of any laws, ordinances or the Articles of Incorporation in relation to the execution of duties by Directors.
3. In our opinion, the Board of Directors' resolution on the internal control system is adequate in content. We found no matters that need to be pointed out in regards to the content of the records in the Business Report and the execution of duties by Directors in relation to said internal control system.

(2) Results of audit of Non-consolidated Financial Statements and their supplementary schedules

In our opinion, the methods and results of the audit conducted by Accounting Auditor Ernst & Young ShinNihon LLC are reasonable.

(3) Results of Audit of Consolidated Financial Statements

In our opinion, the methods and results of the audit conducted by Accounting Auditor Ernst & Young ShinNihon LLC are reasonable.

May 20, 2021

Audit & Supervisory Board, Daiichi Kigenso Kagaku Kogyo Co., Ltd.

Standing Outside Audit & Supervisory Board Member	Hiroshi Kawaguchi
Outside Audit & Supervisory Board Member	Nobuhiro Nishii
Outside Audit & Supervisory Board Member	Yoshinori Tsuda