To our shareholders:

Items Not Included in Documents Delivered Concerning the Notice of Convocation of the 126th Annual General Meeting of Shareholders

<Business Report>

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

<Consolidated Financial Statements>

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

<Non-Consolidated Financial Statements>

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

The items listed above are posted on each website on the Internet, which are described on page 3 of "Notice of Convocation" pursuant to the applicable laws and regulations and Article 15, Paragraph 2 of the Articles of Incorporation of the Company.

DIC Corporation

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

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

I. Basic Concepts Regarding Internal Controls

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

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

II. DIC Group's System of Internal Controls

❶ Systems for Ensuring that the Performance of Duties by Directors and Employees of the DIC Group Complies with Laws, Regulations and the Company's Articles of Incorporation

1) The Company shall prepare regulations for meetings of the Board of Directors and regulations for *Ringi* (approval by written circular) and shall clarify decision-making authority within the DIC Group.

2) The Company shall appoint Outside Directors and shall work to bolster monitoring functions with regard to management.

3) The Company shall work to set forth the DIC Group Code of Business Conduct as the standard regarding compliance, which Directors and employees of the DIC Group should comply with, and to disseminate it.

4) The Company shall establish an internal auditing department and shall monitor the status of the implementation and operation of internal control systems of the DIC Group on a periodic basis. Important matters that are discovered through such monitoring and the status of improvements shall be reported to Representative Directors on a periodic basis, and those matters of particular importance are to be reported to the Board of Directors.

5) The Company shall, as a part of its compliance activities, establish an internal notification system as a channel available for the employees of the DIC Group and set up multiple notification channels independent from channels for communication used in the execution of business, thereby creating a structure that can quickly respond to domestic and international notifications. In addition, a system shall be put into place so that any person making a notification will not suffer any detriment.

6) The Company shall sever any and all connections with antisocial elements and shall collaborate with legal counsel and the police, among others, in making firm responses to unwarranted demands, etc., made on the DIC Group by such antisocial elements.

【Operational Status】
The Company has clarified decision-making authority within the DIC Group via the Articles of Incorporation, regulations for meetings of the Board of Directors, regulations for *Ringi* and regulations for authorization, etc., in order to ensure the performance of duties and enhancement of supervisory functions, all of which it reviews on an ongoing basis.

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The Company has nominated three individuals to serve as Independent Outside Directors, and the ratio of Independent Outside Directors to the total number of Directors has been one-third or more.
In the fiscal year 2023, e-learning programs on the DIC Group Code of Business Conduct, quality compliance, and the prevention of discrimination and harassment were conducted for DIC Group companies.

The Company's internal audit function monitored the status of implementation and operation of the internal controls system and reported to the Representative Directors regarding matters discovered through this process, as well as on the status of improvements. The decision was made to also report audit results directly to the Board of Directors and the basic policy on internal control and internal audit regulations were revised accordingly.

The Company handled internal claims appropriately by conducting investigations and interviews.

④ Systems for Ensuring That Duties of Directors of the Group Are Performed Efficiently

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

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

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

【Operational Status】

The Company made decisions regarding the performance of important duties in accordance with the regulations for the Board of Directors, regulations for *Ringi* and other regulations.

The executive officer system facilitated efficient decision making, while the Board of Directors supervised the executive officers' performance of their duties through the preparation of performance reports.

Based on decision-making authority, the Company sought to ensure the appropriate and efficient execution of duties.

To establish a more global management configuration, a key strategy for business portfolio transformation outlined in the DIC Vision 2030 long-term management plan, the Company has established the Executive Committee, members of which include individuals responsible for overseas regional headquarters, as a forum for sharing information across the global DIC Group on important matters with the potential to significantly impact the Group's management.

Regarding the annual budget, steps are taken to enhance awareness, including holding in-house briefings, posting related information on the Company's internal portal site and providing monthly progress reports to the Board of Directors.

The WSR 2020 Committee, which is charged with working to boost employee job satisfaction and productivity, identified issues and needed improvements in the ways employees currently work and promoted recurring discussions regarding the Group's vision of itself going forward and the direction of measures.

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❸ Systems for the Preservation and Management of Information Pertaining to the Performance of Duties by Directors

1) Information pertaining to the performance of duties by Directors, such as the minutes of meetings of the Board of Directors and *Ringi* documents, shall be recorded, retained and managed appropriately based on the regulations for document management.

2) The Company shall establish regulations for systems of information management and shall prepare a system for preventing leakage of confidential information of the DIC Group.

【Operational Status】
Information related to the performance of duties by Directors is documented in a printed or electronic form and, together with related materials used in management decision making, retained for the period of time stipulated in the regulations for document management. With the implementation of information security measures, such information is managed rigorously in accordance with confidential information management guidelines.

Information on the performance of duties by Directors is retained in a manner that ensures it can be made available promptly for review if a request is received from a Director, Audit & Supervisory Board Member or other pertinent individual.

❹ Regulations and Other Systems Relating to the Management of Risk of Loss to the DIC Group
1) The Company shall formulate a risk management policy and shall identify, assess, prioritize and address any risks that may have a significant impact on management of the DIC Group.

2) The Company shall establish a risk management system for the DIC Group and shall ensure its effectiveness by repeating the plan–do–check–act (PDCA) cycle.

【Operational Status】
The DIC Group has identified material issues, that is, issues with the potential to significantly affect on its performance over the medium to long term. Steps taken to address these issues, continue to underpin the Group's efforts to grow its businesses, guided by the DIC Vision 2030 long-term management plan. In addition, based on its risk management policy, the Risk Management Working Group, which was created in fiscal year 2023 as a subordinate entity of the Sustainability Committee, identifies risks with the potential to significantly affect the Group's performance over the medium to long term in line with the growth scenario set forth in the DIC Vision 2030 long-term management plan, as well as formulates and implements measures to minimize the impact of latent risks on the DIC Group's business should such risks manifest. Such measures are reviewed regularly to ensure that their implementation is proceeding as planned.

As part of its business continuity management (BCM) program, the Company implemented its annual revision of individual product division business continuity plans (BCPs). Based on these plans, BCP Task Force–led training was conducted that addressed all aspects of BCM in the event of a disaster, including both initial responses and measures to ensure business continuity.

❺ Other Systems for Ensuring Proper Operations of the DIC Group
1) The Company shall determine an administrative department for each subsidiary from the standpoints of business execution and management and shall supervise business affairs by dispatching a director to each subsidiary.

2) The Company shall clarify important matters, including those pertaining to subsidiaries, that must be approved by or reported to the Company.

【Operational Status】

In addition to dispatching a director to each subsidiary, the Company receives regular reports from subsidiaries on business plans and operating conditions, while corporate headquarters' administrative departments and other related departments collaborate to supervise subsidiaries under their jurisdiction.

The Company has established regulations regarding authority within the DIC Group pertaining to matters that must be approved by or reported to the Company.

The Company has formulated Group company management regulations and clarified its management support structure for Group companies.

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

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

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

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

4) The DIC Group shall not treat persons who report to Audit & Supervisory Board Members unfavorably because they have made a report.

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

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

【Operational Status】

Audit & Supervisory Board Members attend important meetings, including those of the Board of Directors and the Executive Committee, and review the contents of *Ringi* approvals as necessary.

Audit & Supervisory Board Members hold liaison meetings on a periodic basis with Representative Directors, the internal auditing department and the Accounting Auditor to exchange opinions.

Directors and employees promptly report on matters designated by the Audit & Supervisory Board, as well as on other important matters.

Audit & Supervisory Board Members meet on a periodic basis with the Audit & Supervisory Board Members of subsidiaries. Audit & Supervisory Board Members attend meetings of the Board of Directors of overseas regional headquarters. Taking into account materiality and risk, in fiscal year 2023 Audit & Supervisory Board Members conducted on-site audits (at certain sites, these audits were conducted on a remote basis).

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Reference **Corporate Governance**

1 Basic Approach to Corporate Governance

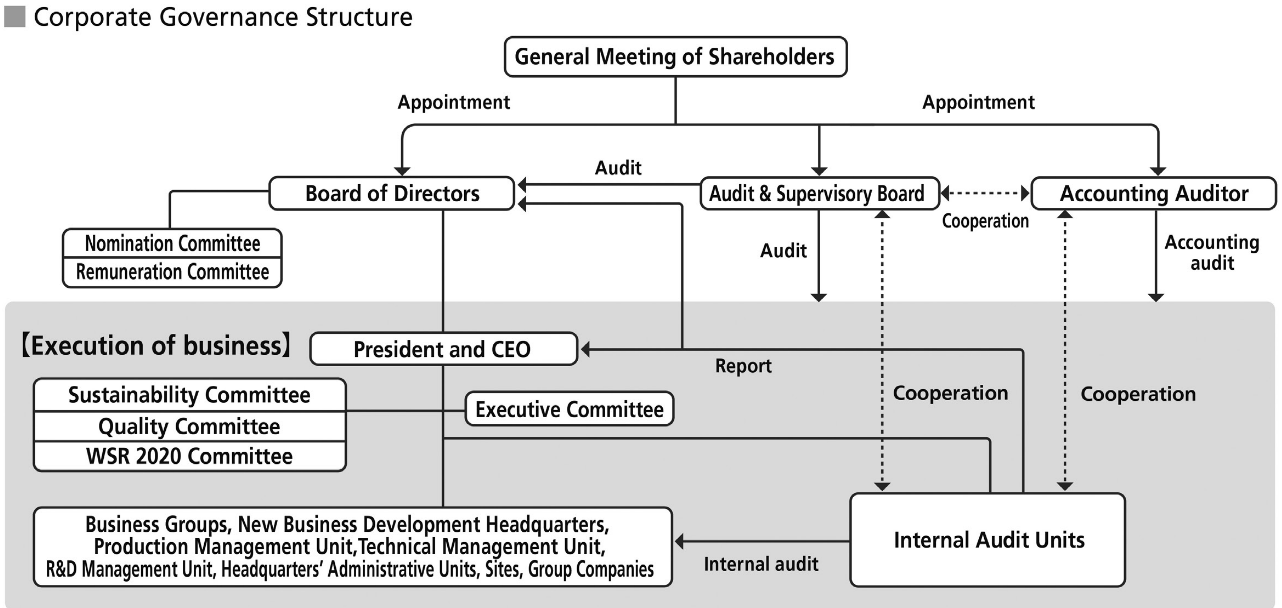
The DIC Group defines corporate governance as a mechanism to ensure effective decision making pertaining to its management policy of achieving sustainable corporate growth and expansion through sound and efficient management, while at the same time guaranteeing the appropriate monitoring and assessment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

The Company has prepared and disclosed a Policy on Corporate Governance to explain its basic approach to corporate governance.

For more information of the Policy on Corporate Governance, please refer to the Company's website:
https://www.dic-global.com/pdf/ir/management/governance/governance_en.pdf

2 Outline of the Company's Corporate Governance

■ Corporate Governance Structure



As a company with Audit & Supervisory Board Members, the Company has a Board of Directors and an Audit & Supervisory Board. It has also instituted an executive officer system, a move aimed at separating decision making and implementation and thereby accelerating business execution and clarifying responsibilities. The Company has also established a Nomination Committee, Remuneration Committee, Executive Committee, Sustainability Committee, Quality Committee and WSR 2020 Committee.

1) Board of Directors

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

2) Nomination Committee

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

3) Remuneration Committee

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

4) Executive Committee

Established as a body to advise on important matters related to the execution of business, the Executive Committee meets twice monthly in principle. The Executive Committee consists of Executive Officers and others appointed by the Board of Directors. As part of the auditing process, one Audit & Supervisory Board Member also attends Executive Committee meetings. Details of deliberations at meetings and the results thereof are reported to the Board of Directors.

5) Sustainability Committee

The Sustainability Committee, which functions as an advisory body, meets several times annually to formulate sustainability policies and activity plans, as well as to evaluate and promote sustainability initiatives. The Sustainability Committee consists of Executive Officers and others designated by the Board of Directors. As part of the auditing process, one Audit & Supervisory Board Member also attends Sustainability Committee meetings. Details of deliberations at meetings and the results thereof are reported to the Board of Directors.

6) Quality Committee

In addition to reporting on the status and progress of quality management, the Quality Committee functions as a deliberative body for the DIC Group’s quality policies, principal initiatives and important issues. In principle, the Quality Committee meets once quarterly. The Quality Committee consists of Executive Officers and others designated by the Board of Directors. As part of the auditing process, one Audit & Supervisory Board Member also attends Quality Committee meetings. Details of deliberations at meetings and the results thereof are reported to the Board of Directors.

7) WSR 2020 Committee

The Work Style Revolution (WSR) 2020 Committee was established to deliberate work style reform–related measures and investment plans, among others, with the aim of enhancing Group employee job satisfaction and productivity. In principle, the WSR 2020 Committee meets once quarterly. The WSR 2020 Committee consists of Executive Officers and others designated by the Board of Directors. Details of important deliberations at meetings and the results thereof are reported to the Board of Directors.

8) Audit & Supervisory Board

The Audit & Supervisory Board comprises four members, including two Outside Members (one of whom is female). In principle, the Audit & Supervisory Board meets once monthly. Board activities include debating and determining auditing policies and auditing plans. Members also report on the results of audits conducted, as well as attend important meetings, including those of the Board of Directors, the Executive Committee and the Sustainability Committee, meet with Representative Directors on a periodic basis to exchange information and opinions, and collect business reports from Directors, Executive Officers and employees. In addition, the Company has established an Audit & Supervisory Board Members’ Office, to which it assigns dedicated personnel to assist the Audit & Supervisory Board Members in their duties.

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Consolidated Statement of Changes in Net Assets

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at January 1, 2023	**96,557**	**94,234**	**222,796**	**(1,785)**	**411,802**
Change in FY 2023					
Dividends from surplus			(9,478)		(9,478)
Net income (loss) attributable to owners of the parent			(39,857)		(39,857)
Purchase of treasury shares				(447)	(447)
Disposal of treasury shares		(170)		646	476
Transfer from retained earnings to capital surplus		170	(170)		—
Net changes of items other than shareholders' equity					
Total change in FY 2023	—	—	**(49,505)**	**199**	**(49,306)**
Balance at December 31, 2023	**96,557**	**94,234**	**173,292**	**(1,586)**	**362,497**

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at January 1, 2023	**5,360**	**694**	**(17,286)**	**(13,573)**	**(24,805)**	**34,091**	**421,088**
Change in FY 2023							
Dividends from surplus							(9,478)
Net income (loss) attributable to owners of the parent							(39,857)
Purchase of treasury shares							(447)
Disposal of treasury shares							476
Transfer from retained earnings to capital surplus							—
Net changes of items other than shareholders' equity	182	(446)	29,845	(3,336)	26,245	1,239	27,484
Total change in FY 2023	**182**	**(446)**	**29,845**	**(3,336)**	**26,245**	**1,239**	**(21,821)**
Balance at December 31, 2023	**5,542**	**248**	**12,559**	**(16,910)**	**1,440**	**35,330**	**399,267**

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Notes to Consolidated Financial Statements

I. Notes to Significant Accounting Policies

1. Scope of Consolidation
Number of consolidated subsidiaries 166
(Sun Chemical Group Coöperatief U.A., DIC (CHINA) CO., LTD., DIC Asia Pacific Pte Ltd, Colors & Effects USA LLC, SEIKO PMC CORPORATION, DIC INVESTMENTS JAPAN, LLC., DIC Graphics Corporation, and others)

Change in scope of consolidation
Increase: 5 companies Innovation DIC Chimitroniques Inc. and others (acquisition of shares, etc.)
Decrease: 8 companies Colors & Effects Japan Ltd. and others (absorption-type merger, etc.)

2. Scope of Equity Method
Number of companies accounted for by the equity method 18
(TAIYO HOLDINGS CO. LTD. and others)

Change in scope of equity method
Increase: None
Decrease: 2 companies Techno Science, Inc. and others (sale of shares, etc.)

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

4. Accounting Policies
(1) Methods and Standards for Valuation of Significant Assets
(a) Securities
Other securities
Securities with a readily determinable market value:
Stated at fair market value (with any unrealized gains or losses being reported directly as a component of shareholder’s equity and the cost of any securities sold being computed by the moving-average method).

Securities with no readily determinable market value:
Stated at cost, with cost being determined by the moving-average method.

(b) Derivatives
Derivatives are carried at fair value.

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

(2) Method for Depreciation of Non-Current Assets

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

DIC Corporation (the "Company") and its consolidated domestic subsidiaries:

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

Consolidated foreign subsidiaries:

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

The principal useful lives are as follows:

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

(b) Intangible assets (excluding leased assets)

Intangible assets are amortized by the straight-line method.

(c) Leased assets

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

(d) Right-of-use assets

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

(3) Standards for Provisions

(a) Allowance for doubtful accounts

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

(b) Provision for bonuses

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

(4) Retirement and Pension Plans

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

The Company and its consolidated domestic subsidiaries amortize actuarial gains and losses in the succeeding years primarily by the straight-line method over the stated years that do not exceed the average remaining service period of the eligible employees (13 years). Past service costs are expensed in the accounting periods when they are incurred.
Consolidated foreign subsidiaries amortize actuarial gains and losses in the succeeding years primarily by the straight-line method over the stated years that do not exceed the average remaining service period of the eligible employees (4-19 years). Past service costs are amortized over 9-23 years.

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

(5) Revenue and expense recognition standards

The Group conducts business activities in three segments, "Packaging & Graphic," "Color & Display" and "Functional Products," and mainly provide merchandise and products to domestic and overseas customers.
With regard to the sales of merchandise and products in these business fields, the Group recognizes revenue at the time of delivery of merchandise or products because it considers that the customer obtains control over the merchandise or products and performance obligations are satisfied at the time of delivery of the merchandise or products.
Revenue is recognized at the amount of consideration promised in the contract with the customer, less consideration such as returns, rebates and others, to the extent that there is a high probability of no material reversal of revenue. Also, regarding buy-sell transactions that fall under the buyback agreement, the amount of raw materials at the end of the fiscal period, which are provided to transaction partners, is continually recognized as inventory, and the amount of supplied materials at the end of fiscal period that remain at transaction partners is recognized as buyback obligations at the same time.
Furthermore, transaction consideration is generally received within one year after performance obligations are satisfied, and important financing components are not included.

(6) Foreign Currency Translation

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

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the exchange rates as of the balance sheet date. Revenue and expense accounts are translated at the average rate of exchange in effect during the year. Translation differences are included in foreign currency translation adjustment and non-controlling interests in the section of net assets.

(7) Method for Hedge Accounting

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

(8) Group tax sharing system

The Company and some of its subsidiaries have adopted the group tax sharing system.

(9) Application of the practical solution on the accounting and disclosure under the group tax sharing system

The Company and its certain domestic consolidated subsidiaries have transitioned from the consolidated taxation system to the group tax sharing system from the beginning of the fiscal year ended December 31, 2023. Accordingly, the accounting procedures and disclosure of corporate and local corporate taxes and tax effect accounting are accounted for and disclosed in accordance with the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (ASBJ Practical Issues Task Force (“PITF”) No. 42, August 12, 2021). Pursuant to the provision of Paragraph 32 (1) of the Practical Solution No. 42, the Company has assumed that there is no impact of the change in accounting policy due to the application of Practical Solution No. 42.

5. Amortization of Goodwill

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

6. Additional Information

(Board Benefit Trust (BBT))

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

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

(1) Outline of the transactions

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

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

The shares remaining in the trust are recorded under net assets as treasury shares at the book value in the trust (excluding incidental costs). The book value and number of such treasury shares are ¥520 million and 132 thousand as of December 31, 2022, respectively, and ¥925 million and 303 thousand as of December 31, 2023, respectively.

II. Notes to Change in Accounting Policies

(Application of "Implementation Guidance on Accounting Standard for Fair Value Measurement")

The Company and its domestic consolidated subsidiaries adopted the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, issued on June 17, 2021) effective from the beginning of the fiscal year ended December 31, 2023, and have resolved to apply the new accounting policies set forth therein going forward in accordance with the transitional treatment stipulated in Paragraph 27-2 of the implementation guidance. This has no impact on the consolidated financial statements.

(Application of Financial Accounting Standards Board Accounting Standards Update 2016-13 Financial Instruments – Credit Losses (Topic 326))

Foreign subsidiaries that have adopted Generally Accepted Accounting Principles in the United States applied Financial Accounting Standards Board Accounting Standards Update 2016-13 Financial Instruments – Credit Losses (Topic 326) effective from the fiscal year ended December 31, 2023. As a result, they accordingly reviewed the classification and measurement approaches for financial instruments, and used the expected credit loss model to recognize impairment losses for financial assets.

The impact of this application on the consolidated financial statements is immaterial. Due to that the impact on per share information being immaterial, related information is omitted.

III. Notes to Accounting Estimates

1. Valuation of Goodwill and Property, Plant and Equipment Related to Sun Chemical Color Materials

(1) Amount recorded in the consolidated financial statements for the fiscal year ended December 31, 2023

(Millions of yen)

	Previous Fiscal Year Ended December 31, 2022	Current Fiscal Year Ended December 31, 2023
Property, plant and equipment	95,795	111,326
Intangible assets	20,290	20,088
Goodwill	19,136	—
Impairment losses	—	22,469

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

(a) Method of calculating the amounts recognized in the consolidated financial statements for the fiscal year ended December 31, 2023

Goodwill related to the acquisition of the Colors & Effects pigments business is allocated to reporting unit Sun Chemical Color Materials and is tested for impairment on an annual basis. If the fair value is less than the carrying value, an impairment loss is recognized. The fair value is determined by discounting estimated future cash flows to present value. In the fiscal year ended December 31, 2023, owing to a revision of the business plan in light of current economic conditions, the fair value was less than the carrying value, as a result of which an impairment loss of ¥19,653 million was recognized on the entire unamortized balance of goodwill.

Associated with reorganization of pigment production sites of Sun Chemical Color Materials, the Company also recognized an impairment loss of ¥2,816 million on the assets of its production site in the United States, due to the decision of suspension of its operation.

(b) Significant assumptions used in calculating the amounts recognized in the consolidated financial statements for the fiscal year ended December 31, 2023

Significant assumptions used in estimating future cash flows include business plan, which contains the expected sales growth rate, among others, the discount rate and long-term growth rate.

(c) Impact on the consolidated financial statements for the fiscal year ending December 31, 2024

Although fair values are determined based on management’s best estimates, such estimates may be affected by changes in market conditions. If the assumptions used change as a consequence of changes in the business environment or other factors, this could have a material impact on the valuation of property, plant and equipment, but not goodwill, related to Sun Chemical Color Materials in the fiscal year ending December 31, 2024.

2. Valuation of Goodwill and Property, Plant and Equipment Related to the Group of Cash-Generating Units including Guangdong DIC TOD Resins Co., Ltd. (“Guangdong TOD”)

(1) Amount recorded in the consolidated financial statements for the fiscal year ended December 31, 2023

(Millions of yen)

	Previous Fiscal Year Ended December 31, 2022	Current Fiscal Year Ended December 31, 2023
Property, plant and equipment	8,391	9,966
Intangible assets	4,958	4,808
Goodwill	9,948	7,340
Impairment losses	―	2,518

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

(a) Method of calculating the amounts recognized in the consolidated financial statements for the fiscal year ended December 31, 2023

Goodwill related to the acquisition of Guangdong TOD is allocated to a group of cash-generating units that are expected to benefit from synergies arising from business combinations and is tested for impairment on an annual basis. If the recoverable amount of the group of cash-generating units is less than the carrying value, an impairment loss is recognized. The recoverable amount is based on value in use, which is determined by discounting estimated future cash flows to present value. In the fiscal year ended December 31, 2023, owing to a revision of the business plan in light of factors such as an anticipated delay in the switch from oilborne to waterborne resins in the PRC market, the recoverable value was less than the carrying value, as a result of which an impairment loss of ¥2,518 million was recognized on a portion of the unamortized balance of goodwill.

(b) Significant assumptions used in calculating the amounts recognized in the consolidated financial statements for the fiscal year ended December 31, 2023

Significant assumptions used in estimating future cash flow include the future business plan, which contains the expected sales growth rate, among others, the discount rate and long-term growth rate.

(c) Impact on the consolidated financial statements for the fiscal year ending December 31, 2024

Although fair values are determined based on management's best estimates, such estimates may be affected by changes in market conditions. If the assumptions used change as a consequence of changes in the business environment or other factors, this could have a material impact on the valuation of goodwill and property, plant and equipment related to the group of cash-generating units including Guangdong TOD in the fiscal year ending December 31, 2024.

3. Purchase Price Allocation of Innovation DIC Chimitroniques Inc.

(1) Amount recorded in the consolidated financial statements for the fiscal year ended December 31, 2023

Property, plant and equipment	¥5,352 million
Intangible assets	2,723 million
Goodwill	5,971 million

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

(a) Method of calculating the amounts recognized in the consolidated financial statements for the fiscal year ended December 31, 2023

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

(Millions of yen)

Primary assets		Amount recorded on consolidated financial statements
Property, plant and equipment	Buildings and structures	576
	Machinery, equipment and vehicles	3,251
	Tools, furniture and fixtures	999
Intangible assets	Customer-related assets	2,205
	Technologies and related assets	517

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

Goodwill is calculated by subtracting identifiable assets accepted and liabilities assumed from the acquisition cost.

(b) Significant assumptions used in calculating the amounts recognized in the consolidated financial statements for the year ended December 31, 2023

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

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

(c) Impact on the consolidated financial statements for the year ending December 31, 2024

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

4. Recoverability of Deferred Tax Assets

(1) Amount recorded in the consolidated financial statements for the fiscal year ended December 31, 2023

Deferred Tax Assets ¥16,593 million

(The balance of deferred tax assets before offsetting deferred tax liabilities is ¥46,048 million.)

The amount of net operating loss carryforwards and future deductible temporary difference for which deferred tax assets have not been recognized is ¥68,755 million.

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

(a) Method of calculating the amounts recognized in the consolidated financial statements for the year ended December 31, 2023

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

Among the subsidiaries, Sun Chemical Group, which is mainly based in Americas and Europe, applies the guidance ASC 740, "Income Taxes." Sun Chemical Group recorded deferred tax assets of ¥35,034 million, before offsetting against deferred tax liabilities. The amount occupies a large percentage of the consolidated total. The amount of net operating loss carryforwards and future deductible temporary differences for which deferred tax assets have not been recognized is ¥53,691 million.

(b) Significant assumptions used in calculating the amounts recognized in the consolidated financial statements for the year ended December 31, 2023

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

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

(c) Impact on the consolidated financial statements for the year ending December 31, 2024

These assumptions may be affected by global currency exchange rates and economic trends, which are influenced greatly by factors such as rising interest rates in Europe and the United States, as well as by prices for raw materials, which are affected by fluctuating energy prices. If the results differ from initial estimates, this could have a significant impact, as it will be necessary to additionally record or reverse deferred tax assets in the consolidated financial statements for the following fiscal year.

IV. Notes to Consolidated Balance Sheet

	(Millions of yen)
1. Accumulated Depreciation of Property, Plant and Equipment	692,055

2. Assets Pledged for Collateral and Secured Liabilities

(1) Assets pledged for collateral

	(Millions of yen)
Cash and deposits	44
Notes and accounts receivable - trade	3,782
Inventories	1,902
Buildings and structures	1,039
Land	2,768
Non-current assets other	567
Total	10,102

(2) Secured liabilities

	(Millions of yen)
Current portion of long-term loans payable	92
Long-term loans payable	505
Total	597

3. Contingent Liabilities and Others

	(Millions of yen)
Liability for guarantee	758

Ⅴ. Notes to Consolidated Statement of Income

Impairment losses

The Group recorded impairment losses in the following asset groups:

Use	Type of assets	Location	Amount (Millions of yen)
Others	Goodwill	Germany and others	19,653
Plant assets	Land, buildings and structures, machinery, equipment and vehicles and others	Tatebayashi-city, Gunma	3,278
Plant assets	Machinery, equipment and vehicles, buildings and structures and others	Takaishi-city, Osaka and others	3,194
Plant assets	Buildings and structures, machinery, equipment and vehicles and others	U.S.A.	2,816
Others	Goodwill	PRC	2,518
Plant assets	Buildings and structures, land, machinery, equipment and vehicles and others	Tochigi-city, Tochigi	895
Plant assets	Machinery, equipment and vehicles, buildings and structures and others	Takaishi-city, Osaka	692
Plant assets and others	Machinery, equipment and vehicles, goodwill, land, buildings and structures and others	Others	491
Total			33,537

(Reasons for recognition of impairment losses)

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

As for goodwill, as a result of the revision of the business plan, the book values of which was lower than the recoverable amount, was reduced to zero or the recoverable amount**.**

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

Type of assets	Amount (Millions of yen)
Land	2,219
Buildings and structures	2,263
Machinery, equipment and vehicles	6,083
Goodwill	22,306
Others	666
Total	33,537

(Method of grouping assets)

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

Goodwill is grouped in a larger unit that includes assets of several related companies or product groups plus goodwill.

(Method for measuring recoverable amounts)

The recoverable amounts of plant assets were measured by value in use, except land, which was measured by net realizable value. Value in use of the plant assets in Tatebayashi-city, Gunma, was calculated by discounting the estimated future cash flows by 4.0%. Value in use of other plant assets was calculated as zero because any cash flows in future were not expected.

The recoverable amount of goodwill in Germany and others was measured by fair value, and calculated by discounting estimated future cash flows by 9.0%.

The recoverable amount of goodwill in PRC was measured by value in use, and calculated by discounting estimated future cash flows by 10.2%.

VI. Notes to Consolidated Statement of Changes in Net Assets

	(Shares)
1. Number of Common Stock Issued at the End of Period	95,156,904

2. Cash Dividends

(a) Amount of cash dividends paid

Resolution	Type of stock	Dividends in total (Millions of yen)	Cash dividends per share (Yen)	Record date	Dividend payment
March 29, 2023, Annual General Meeting of Shareholders	Common stock	4,739	50	December 31, 2022	March 30, 2023
August 9, 2023, Meeting of the Board of Directors	Common stock	4,739	50	June 30, 2023	September 1, 2023
Total		9,478			

Notes: 1. The total amount of dividends resolved at the annual general meeting of shareholders held on March 29, 2023, includes dividends of ¥7 million for the Company’s shares held by the BBT.

2. The total amount of dividends resolved at the meeting of the board of directors held on August 9, 2023, includes dividends of ¥6 million for the Company’s shares held by the BBT.

(b) Amount of cash dividends to be paid

Resolution	Type of stock	Funds for dividends	Dividends in total (Millions of yen)	Cash dividends per share (Yen)	Record date	Dividend payment
March 28, 2024, Annual General Meeting of Shareholders	Common stock	Retained earnings	2,849	30	December 31, 2023	March 29, 2024

Note: The total amount of dividends to be resolved at the annual general meeting of shareholders held on March 28, 2024, includes dividends of ¥9 million for the Company’s shares held by the BBT.

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VII. Notes to Financial Instruments

1. Status of Financial Instruments
   The Group is managing funds with safe and secure financial assets. Means of financing include direct financing such as the issuance of bonds and commercial papers and liquidation of receivables, as well as indirect financing such as short-term and long-term bank borrowings, the terms of which are determined based on financial market conditions and balance of account at the time.
   The Group has derivatives which consist of forward foreign currency contracts, currency options, currency swaps and interest-swaps. For commodities, commodity swaps are used. Derivatives are not used for trading or speculative purposes, but for risk aversion.
   The Group applies hedge accounting when the derivative qualifies as a hedging instrument.

2. Fair Value of Financial Instruments
   The following table presents the carrying amounts and the fair value of financial instruments at December 31, 2023.

(Millions of yen)

		Carrying amount	Fair value	Difference
①	Investment securities (*2)			
	Stocks of affiliates	24,981	34,996	10,015
	Available-for-sale securities	13,468	13,468	—
Assets total		38,449	48,464	10,015
①	Current portion of bonds payable	30,000	29,976	(24)
②	Current portion of long-term loans payable	33,897	33,864	(33)
③	Bonds payable	95,000	93,232	(1,768)
④	Long-term loans payable	308,231	307,214	(1,017)
⑤	Lease obligations (non-current)	11,769	11,645	(124)
Liabilities total		478,897	475,932	(2,965)
Derivative financial instruments (*3)				
①	Hedge accounting - not applied	(2,023)	(2,023)	—
②	Hedge accounting - applied	(1,551)	(1,551)	—
Derivative financial instruments total		(3,574)	(3,574)	—

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

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

	As of December 31, 2023 (Millions of yen)
Unlisted stocks	24,622

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

(*4) The fair value of investment in partnerships is not disclosed as the Group has applied the accounting treatment prescribed in Paragraph 24-16 of the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, issued on June 17, 2021). The consolidated balance sheet amount of these financial instruments is as follows:

	As of December 31, 2023 (Millions of yen)
Investment in partnerships	1,839

3. Details of the Level of Financial Instruments by Fair Value

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

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

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

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

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

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

(Millions of yen)

Category	Market value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities Stocks	13,468	—	—	13,468
Assets total	13,468	—	—	13,468
Derivative financial instruments				
① Hedge accounting - not applied	—	(2,023)	—	(2,023)
② Hedge accounting - applied	—	(1,551)	—	(1,551)
Derivative financial instruments total	—	(3,574)	—	(3,574)

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

(Millions of yen)

Category	Market value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Stocks of affiliates	34,996	—	—	34,996
Assets total	34,996	—	—	34,996
Current portion of bonds payable	—	29,976	—	29,976
Current portion of long-term loans payable	—	33,864	—	33,864
Bonds payable	—	93,232	—	93,232
Long-term loans payable	—	307,214	—	307,214
Lease obligations (non-current)	—	11,645	—	11,645
Liabilities total	—	475,932	—	475,932

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

Investment securities

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

Derivative transactions

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

The fair values of interest rate swap transactions are measured based on the price offered by the trading financial institution and are classified as Level 2. Interest rate swaps subject to special treatment are considered an integral part of the relevant hedged loans and their fair values are included in the fair value of those loans.

The fair values of commodity swap transactions are measured using exchange prices and are classified as Level 2.

Bonds payable (including current portion)

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

Lease obligations (non-current)

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

Long-term loans payable (including current portion)

Long-term loans payable with variable interest rates subject to special treatment for interest rate swaps are measured by discounting the total amount of principal and interest, considered an integral part of the interest rate swap, using the presumed interest rate that would be expected to apply if similar loans were newly undertaken, and are classified as Level 2.

Since other long-term loans payable with variable interest rates are deemed to reflect market interest rates within a short term, and because the Company's credit rating has not changed significantly since the execution, their fair values approximate their book values and are classified as Level 2.

The fair values of long-term loans payable with fixed interest rates are measured by discounting the present value, that is, the total amount of principal and interest, using the interest rate that would be expected to apply if similar loans were newly undertaken, and are classified as Level 2.

VIII. Notes to Revenue Recognition

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

(Millions of yen)

	Packaging & Graphic	Color & Display	Functional Products	Subtotal	Others	Total
Sales to external customers						
Japan	114,244	23,645	159,835	297,724	437	298,161
Overseas	427,698	170,449	142,261	740,408	167	740,575
Total	541,942	194,094	302,096	1,038,132	604	1,038,736

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

Basic information for understanding revenue from contracts with customers is described in "(5) Revenue and expense recognition standards" within "4. Accounting Policies" in "I. Notes to Significant Accounting Policies."

3. Information that provides for understanding the amount of revenue in the fiscal year ended December 31, 2023, and in subsequent fiscal years

(1) Receivables from contracts with customers and contract liabilities

(Millions of yen)

	FY2023
Receivables from contracts with customers (beginning balance)	247,520
Receivables from contracts with customers (ending balance)	225,148
Contract liabilities (beginning balance)	607
Contract liabilities (ending balance)	649

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

Within the opening balance of contract liabilities as of January 1, 2023, the amount recognized as revenue for the fiscal year ended December 31, 2023, was immaterial. Revenue recognized in the fiscal years ended December 31, 2022 and 2023, in relation to performance obligations satisfied (or partially satisfied) in preceding fiscal years was immaterial. There were no significant changes in the balance of contract assets or the balance of contract liabilities.

(2) Transaction prices allocated to remaining performance obligations

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

IX. Notes to Amounts Per Share Information

	(Yen)
Shareholders' equity per share	3,844.70
Losses per share	(421.06)

(Notes)

1. The Company has introduced the BBT, and the shares held by the trust are recorded under net assets as treasury shares. The number of treasury shares excluded from the number of shares issued as of the balance sheet date used for the calculation of shareholders' equity per share includes the number of shares held by the trust. The number of treasury shares excluded from the weighted-average number of shares issued during the fiscal year used for the calculation of earnings (losses) per share includes the number of shares held by the trust.
2. The number of treasury shares excluded from the calculation of shareholders' equity per share was 302,700 as of December 31, 2023, while the weighted-average number of treasury shares issued during the fiscal year excluded from the calculation of earnings (losses) per share was 151,085 for the fiscal year ended December 31, 2023.

X. Notes to Significant Subsequent Events

Business Divestitures

Transfer of subsidiary shares

Effective January 15, 2024, the Company transferred all shares held in consolidated subsidiary SEIKO PMC CORPORATION ("SEIKO PMC") through the purchase of treasury stock by the latter.

(1) Overview of the business divestiture

(a) Name of the successor entity

SEIKO PMC CORPORATION

(b) Description of the divested businesses

Manufacture and sale of papermaking chemicals, resins for printing inks and recording materials

(c) Main reason for the business divestiture

To meet the targets of the DIC Vision 2030 long-term management plan, announced in February 2022, following extensive discussions by the Board of Directors regarding how to allocate limited management resources to priority business areas, the Company resolved—as part of a review of the DIC Group's business portfolio—to transfer all shares held in SEIKO PMC via third party. This decision was taken in the belief that it is the best course for SEIKO PMC to seek growth with a new partner better positioned to drive growth and a dramatic advance.

(d) Date of the business divestiture

January 15, 2024 (Deemed transfer date: January 1, 2024)

(e) Other matters regarding the outline of the transaction, including the legal form

Transfer of shares for where the consideration received is property only, such as cash

(2) Overview of the transaction including the legal form

(a) Amount of gain or loss on transfer (forecast)

Loss on sales of shares and investments in capital of subsidiaries and affiliates: ¥4,213 million

(b) Fair book values of assets and liabilities pertaining to the transferred business and the breakdown thereof

Current assets	¥26,025 million
Non-current assets	24,884 million
Total assets acquired	¥50,909 million
Current liabilities	¥14,133 million
Non-current liabilities	2,249 million
Total liabilities assumed	¥16,382 million

(c) Accounting treatment

The accounting treatment of the transaction will be based on the “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, issued September 13, 2013) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, issued January 16, 2019).

(3) Reportable segment that included the divested business

Functional Products

(4) Estimated amount of profit and loss related to the divested business reported on the consolidated statement of income for the current fiscal year

Net sales	¥32,175 million
Operating income	¥1,980 million

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XI. Notes to Business Combinations

1. Business combination under common control

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

(1) Overview of the transaction

(a) Name of company merged and description of business

Name of company merged	Colors & Effects Japan Ltd.
Business	Import, export, sale, distribution and technical services related to pigments, processed pigments and colorants, as well as intermediates thereof

(b) Date of merger

January 1, 2023

(c) Merger method

Absorption type merger with DIC as the surviving company and Colors & Effects Japan dissolved and absorbed.

(d) Company name after merger

DIC Corporation

(e) Other details regarding this transaction

On June 30, 2021, the Company completed its acquisition of the Colors & Effects global pigments business from BASF SE of Germany. Colors & Effects Japan is one of the companies that make up this business. The decision to carry out this merger was made with the aim of achieving the integrated global management of the Company's global pigments business and realizing synergies with the newly acquired company as swiftly as possible.

(2) Accounting treatment used

In accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued January 16, 2019) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued January 16, 2019), this merger has been accounted for as a transaction under common control.

2. Business combination resulting from acquisitions

On June 1, 2023, the Company acquired all shares of PCAS Canada Inc. ("PCAS Canada"), a Canadian manufacturer of polymers used in photoresists for semiconductor photolithography, through the holding company established for the acquisition.

(1) Overview of the business combination

(a) Name of acquired company and its business	
Name of acquired company	PCAS Canada Inc.
Business	Manufacture and sales of polymers used in photoresists for semiconductor photolithography
(b) Date of the business combination	June 1, 2023
(c) Legal form of the business combination	Acquisition of shares for a cash consideration
(d) Name of entity after acquisition	Innovation DIC Chimitroniques Inc. (merged with the holding company and changed name effective from the date of the acquisition)
(e) Percentage of voting rights acquired	100.0%
(f) Basis for determining the acquiring company	The Company acquired the shares for cash consideration.

(2) Objectives of the business combination

The semiconductor market is growing worldwide and its importance is increasing with the development and proliferation of the Internet of Things (IoT), big data, AI and other advanced information technologies. In this environment, the Company—which seeks to contribute to a society that is increasingly digital, as set forth in its DIC Vision 2030 long-term management plan—has positioned expanding its lineup of photoresist materials, which are indispensable to semiconductor fabrication, as a key strategy in the area of products for digital applications and is promoting the development of state-of-the-art photoresist polymers. PCAS Canada, which has a manufacturing site in Canada, boasts outstanding production technologies and mass production know-how, and excels in delivering photoresist materials with the superior purity and low metal content required for use in semiconductor photolithography. The Company is confident that the combination of these production technologies with its own synthesis technologies, a key strength, will enhance its ability to respond to the needs of the semiconductor industry, which continues to be driven by technological progress, thereby further contributing to digital innovation.

(3) Period for which the financial results of the acquired business and companies are included in the consolidated financial statements for the fiscal year ended December 31, 2023

June 1, 2023–December 31, 2023

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

Type of consideration	Cash	¥13,211 million
Cost of acquisition		¥13,211 million

The cash consideration of ¥13,211 million comprised ¥12,616 million for the acquisition of the shares of PCAS Canada, as well as ¥595 million for the repayment of the debt that PCAS Canada had before acquisition.

(5) Description and amount of major acquisition costs

Advisory fees and others	¥405 million

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

(a) Amount of goodwill arising from the business combination	¥5,971 million
(b) Reason for recognition of goodwill	Because the cost of acquisition exceeded the net of assets acquired and liabilities assumed, the excess is recognized as goodwill.
(c) Method and period of amortization	Straight-line method over 20 years

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

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

Customer-related assets	¥2,205 million
Technologies and related assets	517 million
Total	¥2,722 million

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

Customer-related assets	20 years
Technologies and related assets	25 years
Total	21 years

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

Current assets	¥2,115 million
Non-current assets	8,075 million
Total assets acquired	¥10,189 million
Current liabilities	¥1,088 million
Non-current liabilities	1,862 million
Total liabilities assumed	¥2,949 million

XII. Others

Japanese yen amounts are rounded to the nearest million.

Non-Consolidated Statement of Changes in Net Assets

(Millions of yen)

	Shareholders' equity									
		Capital surplus			Retained earnings					
					Other retained earnings					
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Reserve for tax deferment of subsidies	Reserve for tax deferment of insurance gains	Reserve for tax deferment of capital gains from eminent domain	Reserve for reduction entry of replaced property	Retained earnings brought forward	Total retained earnings
Balance at January 1, 2023	**96,557**	**94,156**	**—**	**94,156**	**86**	**150**	**793**	**3,916**	**124,103**	**129,048**
Change in FY 2023										
Reversal of reserve for tax deferment of subsidies					(22)				22	—
Reversal of reserve for tax deferment of insurance gains						(8)			8	—
Reversal of reserve for tax deferment of capital gains from eminent domain							(20)		20	—
Reversal of reserve for reduction entry of replaced property								(237)	237	—
Dividends from surplus									(9,478)	(9,478)
Net income (loss)									(3,338)	(3,338)
Purchase of treasury shares										
Disposal of treasury shares			(170)	(170)						
Transfer from retained earnings to capital surplus			170	170					(170)	(170)
Net changes of items other than shareholders' equity										
Total change in FY 2023	**—**	**—**	**—**	**—**	**(22)**	**(8)**	**(20)**	**(237)**	**(12,699)**	**(12,986)**
Balance at December 31, 2023	**96,557**	**94,156**	**—**	**94,156**	**64**	**143**	**773**	**3,679**	**111,404**	**116,062**

	Shareholders' equity		Valuation and translation adjustments			Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at January 1, 2023	**(1,785)**	**317,975**	**5,039**	**(4,867)**	**172**	**318,147**
Change in FY 2023						
Reversal of reserve for tax deferment of subsidies		—				—
Reversal of reserve for tax deferment of insurance gains		—				—
Reversal of reserve for tax deferment of capital gains from eminent domain		—				—
Reversal of reserve for reduction entry of replaced property		—				—
Dividends from surplus		(9,478)				(9,478)
Net income (loss)		(3,338)				(3,338)
Purchase of treasury shares	(447)	(447)				(447)
Disposal of treasury shares	646	476				476
Transfer from retained earnings to capital surplus		—				—
Net changes of items other than shareholders' equity			(242)	(4,915)	(5,156)	(5,156)
Total change in FY 2023	**199**	**(12,787)**	**(242)**	**(4,915)**	**(5,156)**	**(17,943)**
Balance at December 31, 2023	**(1,586)**	**305,188**	**4,797**	**(9,782)**	**(4,985)**	**300,203**

Notes to Non-Consolidated Financial Statements

I. Notes to Significant Accounting Policies

1. Methods and Standards for Valuation of Securities

Securities of subsidiaries and affiliates:

Securities of subsidiaries and affiliates are stated at cost calculated by the moving-average method.

Other securities:

Other securities

Securities with a readily determinable market value:

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

Securities with no readily determinable market value:

Stated at cost, with cost being determined by the moving average method.

2. Methods and Standards for Valuation of Derivatives

Derivatives are carried at fair value.

3. Methods and Standards for Valuation of Inventories

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

4. Method for Depreciation of Non-Current Assets

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

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

The principal useful lives are as follows:

Buildings	8 - 50 years
Machinery and equipment	8 years

(2) Intangible assets (excluding goodwill and leased assets)

Intangible assets are amortized by the straight-line method.

With regard to software for internal use, the straight-line method is applied based on a useful life of 5 years.

(3) Goodwill

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

(4) Leased assets

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

5. Foreign Currency Translation

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

6. Standards for Provisions

(1) Allowance for doubtful accounts

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

(2) Provision for bonuses

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

(3) Provision for directors' bonuses

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

(4) Provision for environmental measures

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

(5) Provision for loss on withdrawal from business

Provision for loss on withdrawal from business is recognized based on an estimate of losses arising from business withdrawal as of the balance sheet date.

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

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

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

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

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

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

(7) Provision for stock payments

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

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

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

7. Method for deferred assets

Bond issuance cost is expensed upon payment.

8. Method for Hedge Accounting

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

9. Group tax-sharing system

The Company has adopted the group tax-sharing system.

10. Retirement and Pension Plans

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

11. Revenue and expense recognition standards

The Company conducts business activities in three segments, “Packaging & Graphic,” “Color & Display” and “Functional Products,” and mainly provide merchandise and products to domestic and overseas customers.
With regard to the sales of merchandise and products in these business fields, the Company recognizes revenue at the time of delivery of merchandise or products because it considers that the customer obtains control over the merchandise or products and performance obligations are satisfied at the time of delivery of the merchandise or products.
Revenue is recognized at the amount of consideration promised in the contract with the customer, less consideration such as returns, rebates and others, to the extent that there is a high probability of no material reversal of revenue. Also, regarding buy-sell transactions that fall under the buyback agreement, the amount of raw materials at the end of the fiscal period, which are provided to transaction partners, is continually recognized as inventory, and the amount of supplied materials at the end of fiscal period that remain with transaction partners is recognized as buyback obligation at the same time.
Furthermore, transaction consideration is generally received within one year after performance obligations are satisfied, and important financing components are not included.

12. Additional Information

(Board Benefit Trust (BBT))

The notes concerning the transaction of delivering the Company's own stock to executive officers as well as directors who concurrently serve as executive officers through the BBT are omitted, as "6. Additional Information within I. Notes to Significant Accounting Policies" of the notes to consolidated financial statements contains the same description.

II. Notes to Change in Accounting Policies

(Application of "Implementation Guidance on Accounting Standard for Fair Value Measurement")

The Company adopted the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, issued on June 17, 2021) effective from the beginning of the fiscal year ended December 31, 2023, and have resolved to apply the new accounting policies set forth therein going forward in accordance with the transitional treatment stipulated in Paragraph 27-2 of the implementation guidance. This has no impact on the non-consolidated financial statements.

III. Notes to Accounting Estimates

1. Stocks of subsidiaries and affiliates

(1) Amount recorded in the non-consolidated financial statements for the fiscal year ended December 31, 2023

Stocks of subsidiaries and affiliates ¥496,475 million

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

(a) Method of calculating the amounts recognized in the non-consolidated financial statements for the fiscal year ended December 31, 2023

Of the ¥496,475 million in stocks of subsidiaries and affiliates recorded in the non-consolidated balance sheet as of December 31, 2023, ¥400,696 million represents investments in DIC INVESTMENTS JAPAN, LLC., which accounts for 45% of total assets. DIC INVESTMENTS JAPAN, LLC. aims to invest in and extend loans efficiently to Group companies, and its assessment of the cost of such an investment is impacted by the operating results of the target company. The Company assesses the cost of investments in subsidiaries and affiliates by comparing cost of acquisition with the actual value of shares. In principle, an impairment loss is recognized to reduce the cost to its substantial value if the substantial value is significantly lower than the cost, unless sufficient evidence indicates that a recovery is likely.

(b) Impact on the non-consolidated financial statements for the fiscal year ending December 31, 2024

The fair value of the stock of DIC INVESTMENTS JAPAN, LLC., did not fall substantially below the cost of acquisition as of December 31, 2023. However, if the fair value decreases significantly compared to the cost of acquisition, due to the sharp deterioration of economic conditions or the operating environment, it may have a significant affect on the non-consolidated financial statements of the Company for the fiscal year ending December 31, 2024.

2. Recoverability of deferred tax assets

(1) Amount recorded in the non-consolidated financial statements for the fiscal year ended December 31, 2023

Deferred tax assets before offsetting deferred tax liabilities ¥12,188 million

(The balance of deferred tax liabilities after offsetting deferred tax liabilities is ¥1,599 million)

The amount of deferred tax assets relating to future deductible temporary differences is ¥18,750 million, from which valuation allowance of ¥6,562 million was deducted. Of this amount, deferred tax assets relating to net operating loss carryforwards was ¥2,911 million, from which valuation allowance of ¥366 million was deducted.

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

(a) Method of calculating the amounts recognized in the non-consolidated financial statements for the fiscal year ended December 31, 2023

The Company applies the group tax sharing system. Judgements on the recoverability of deferred tax assets with regard to corporate taxes and local income taxes are based on future taxable income of the entire tax-sharing system. Whereas, judgements on the recoverability of deferred tax assets with regard to inhabitants' tax and enterprise tax are based on future taxable income of the Company only. Although there was a significant tax loss in the fiscal year ended December 31, 2023, as taxable income before temporary differences is expected in a certain period in the future, deferred tax assets were recognized in the range of amount considered recoverable from taxable income in a reasonably estimable period in the future, and amount exceeding that range was deducted.

(b) Significant assumptions used in calculating the amounts recorded in the non-consolidated financial statements for the fiscal year ended December 31, 2023

The amount of recoverable deferred tax assets was estimated based on not only past taxable income levels, but also forecasts of future taxable income based on the business plan for the period during the deductible period of deductible temporary differences and unused net operating loss carryforwards.

The business plan that forms the basis for estimating future taxable income uses expected sales revenue, raw material price and foreign exchange market trends as significant assumptions.

(c) Impact on the non-consolidated financial statements for the fiscal year ending December 31, 2024

These assumptions may be affected by global currency exchange rates and economic trends, which are influenced greatly by factors such as rising interest rates in Europe and the United States, as well as by prices for raw materials, which are affected by fluctuating energy prices. If actual results differ from initial estimates, this could have a significant impact as it would be necessary to additionally record or reverse deferred tax assets in the financial statements for the following fiscal year.

ENGLISH TRANSLATION OF JAPANESE-LANGUAGE DOCUMENT
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IV. Notes to Non-Consolidated Balance Sheet

	(Millions of yen)
1. Accumulated Depreciation of Property, Plant and Equipment	308,056

2. Contingent Liabilities and Others

(Millions of yen)

Guaranteed party	Amount	Contents of guarantee
DIC Graphics Corporation	2,329	Purchase liabilities
DIC Decor, Inc.	2,087	Purchase liabilities
CAST FILM JAPAN CO,. LTD.	750	Loans from financial institutions
DIC Plastics, Inc.	534	Purchase liabilities
Two companies and others	371	Purchase liabilities and others
Total	6,072	

	(Millions of yen)
3. Short-term receivables from subsidiaries and affiliates	42,525
Short-term liabilities to subsidiaries and affiliates	68,697
Long-term liabilities to subsidiaries and affiliates	151

V. Notes to Non-Consolidated Statement of Income

Transactions with subsidiaries and affiliates

	(Millions of yen)
Sales	52,892
Purchases	39,254
Other transactions	5,411

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

Type and number of treasury stock

(Shares)

	As of January 1, 2023	Increase in FY 2023	Decrease in FY 2023	As of December 31, 2023
Common stock	504,123	182,557	189,000	497,680
Total	504,123	182,557	189,000	497,680

(Notes)

1. The shares held by the BBT (302,700 shares) are included in the number of treasury shares as of December 31, 2023.
2. The increase in treasury shares of common stock (182,557 shares) was due to the additional acquisition of the Company's shares by the BBT (180,000 shares) and the purchase of odd-lot shares (2,557 shares).
3. The decrease in treasury shares of common stock (189,000 shares) was due to the benefit of the Company's shares by the BBT (9,000 shares) and the disposal of treasury shares (180,000 shares).

VII. Tax Effect Accounting

1. A breakdown of the major components of deferred tax assets and liabilities as of December 31, 2023, is as follows:

	(Millions of yen)
Deferred gains or losses on hedges	4,451
Stocks of subsidiaries and affiliates	3,543
Net operating loss carryforwards	2,911
Others	7,844
Subtotal deferred tax assets	18,750
Valuation allowance	(6,562)
Total deferred tax assets	12,188

	(Millions of yen)
Foreign exchange loss from foreign currency borrowings	(4,451)
Net defined benefit asset	(3,800)
Valuation difference on available-for-sale securities	(2,066)
Others	(3,470)
Total deferred tax liabilities	(13,787)
Total deferred tax assets (net)	(1,599)

2. Accounting treatment of corporate and local corporate taxes and related tax effect accounting

The Company adopted the group tax-sharing system from the beginning of the fiscal year ended December 31, 2023. As a result, accounting treatment and disclosure of corporate and local corporate taxes and tax effect accounting is in accordance with “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (ASBJ PITF No. 42, August 12, 2021).

VIII. Notes to Revenue Recognition

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

The notes concerning the information that provides a basis for understanding revenue from contracts with customers are omitted, as “VIII. Notes to Revenue Recognition” of the notes to consolidated financial statements contains the same description.

IX. Notes to Related Party Transactions

1. Related Companies

(Millions of yen)

Attribution	Name of related party	Ownership of voting rights	Relation with related parties	Contents of transaction	Amount of transaction	Balance at year-end	
						Account	Amount
Subsidiaries	DIC Graphics Corporation	Owning Direct 66.6%	Sales of raw materials and others Dispatch of officer	Sales of raw materials and others (Note 1)	19,067	Accounts receivable - other	5,118
				Loan transaction (Note 2)	15,435	Short-term loans payable	15,098
	DIC INVESTMENTS JAPAN, LLC.	Owning Direct 100%	Loan transaction Dispatch of officer	Loan transaction (Note 2)	35,486	Short-term loans payable	35,476
	9488-6355 Québec Inc.	Owning Direct 100%	Underwriting of capital increase	Underwriting of capital increase (Note 3)	12,616	—	—

(Notes)

1. Transaction terms in “Sales of raw materials and others” are determined on an arm's length transaction.
2. Interest rate applied to “Loan transaction” is reasonably determined based on the market interest rate.
3. With regard to “Underwriting of capital increase,” the Company underwrote the capital increase that its subsidiary carried out for the stock acquisition of PCAS Canada Inc. In addition, 9488-6355 Québec Inc. has merged with PCAS Canada Inc. and changed its name to “Innovation DIC Chimitroniques Inc.” on the same day that the Company underwrote the capital increase and the stock of PCAS Canada Inc. was acquired.

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

(Millions of yen)

Attribution	Name of related party	Ownership of voting rights	Relation with related parties	Contents of transaction	Amount of transaction	Balance at year-end	
						Accounts	Amount
Companies where directors and their close relatives owned a majority of the voting rights (Note 1)	Nissei Real-Estate Co., Ltd.	—	Rental of buildings and others	Payment of rent for buildings and others (Note 2)	2,501	Security deposit	1,203
	Dainichi Can Co., Ltd.	—	Purchase of metallic containers and others	Purchase of metallic containers and others (Note 3)	490	Electronically recorded obligations, accounts payable - trade, and accounts payable - other	195
				Sales of merchandise and finished goods and offering of service (Note 4)	64	Electronically recorded monetary claims and Account receivable - trade	18
	Nissin Trading Co., Ltd.	—	Purchase of raw materials and others	Purchase of raw materials and others (Note 5)	7,516	Electronically recorded obligations, accounts payable - trade, and accounts payable - other	1,939
				Sales of merchandise and finished goods and offering of service (Note 4)	3,772	Accounts receivable - trade and accounts receivable - other	811

(Notes)

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

X. Notes to Amounts Per Share Information

	(Yen)
Net assets per share	3,171.41
Losses per share	(35.26)

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

XI. Notes to Significant Subsequent Events

Business Divestitures

Transfer of subsidiary shares

The notes concerning the business divestiture of SEIKO PMC CORPORATION are omitted, as "X. Notes to Significant Subsequent Events" of the notes to consolidated financial statements contains the same description.

XII. Others

1. Business combination under common control
   The notes concerning the business combination under common control of Colors & Effects Japan Ltd. are omitted, as "1. Business combination under common control within XI. Notes to Business Combinations" of the notes to consolidated financial statements contains the same description.

2. Japanese yen amounts are rounded to the nearest million.