

DIC REPORT 2018

The DIC Group Integrated Report

Color & Comfort

The DIC WAY

● Mission

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

● Vision

Color & Comfort by Chemistry

● Spirit

Drive, Integrity, Dedication, Collaboration, Harmony



Making it Colorful

DIC helps make life colorful



Innovation through Compounding

DIC brings innovation to society through its core compounding technologies



Specialty Solutions

DIC draws on its expertise and comprehensive strengths to offer solutions

Color & Comfort

Connecting the DIC Group and its Stakeholders

DIC Group Communications Tools

The DIC Group uses a variety of tools to promote communication with its many stakeholders to encourage greater awareness of the Group's activities. More detailed sustainability-related information and data can be found on the DIC website.

Printed/PDF-Form Publications

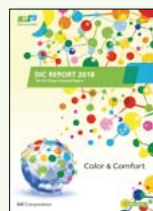
Reports on activities

DIC Report
(summary version)



Summary integrated
report (published annually)
(printed publication)

DIC Report
(complete version)



Complete report
(published annually)
(PDF-form publication)

DIC Report
Financial Section



Report on results of operations
and financial condition
(published annually)
(PDF-form publication)

DIC Global Website

Real-time information

WEB <http://www.dic-global.com/en/>

Umbrella website providing information to the global public about the DIC Group and reports on its various activities; updated as necessary



About this Report

In previous years, the DIC Group has published a combined corporate profile and sustainability report with the aim of presenting a clear, easy-to-understand picture of the Group and its sustainability initiatives. Beginning in 2018, the Group has transformed the DIC Report into an integrated report, which combines financial information, encompassing consolidated operating results and corporate strategies, and nonfinancial (sustainability) information. The Group has published a simplified summary version of the report (printed), which focuses on key highlights, and a more detailed complete version (PDF), which contains extensive quantitative data.

DIC Report (Complete version) (PDF-form publication)

WEB <http://www.dic-global.com/en/csr/annual/>

Note: As used herein, the term "Asia-Pacific region"—a geographic designation that, like "Europe and the Americas" and "Greater China," represents a grouping of companies overseen by a regional headquarters—refers to Asia (excluding Japan and Greater China) and Oceania. The term "Asia and Oceania" refers to Asia (excluding Japan) and Oceania.

Link with the DIC Website

The **(WEB)** mark indicates that more detailed information and/or data can be found on the indicated page of the DIC global website.

DIC global website **WEB** <http://www.dic-global.com/en/>

Scope of Reporting

In principle, this report provides information on DIC Corporation and consolidated DIC Group companies worldwide. For information on the scope of reporting for ESH-related initiatives, please visit the pertinent page of the DIC website.

WEB http://www.dic-global.com/en/csr/pdf/dic_report_scope_en_2018.pdf

Reporting Period

Fiscal year 2017 (January 1–December 31, 2017)

Date of Publication

June 2018 (The next report is scheduled for publication in June 2019.)

Guidelines Referenced

Guidelines referenced in the preparation of this report were ISO 26000, the International Organization for Standardization's standard for social responsibility, released in 2010; Japan's Responsible Care Code; and the Global Reporting Initiative (GRI)'s GRI Standards.

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Cover Design

The cover of this year's DIC Report derives its inspiration from the DIC Group's "Color & Comfort" brand slogan, employing bright colors that evoke the efforts of the Group, a global powerhouse, to enrich and add vibrancy to society and the lives of people everywhere.

The DIC Group: A Global Powerhouse

Corporate Data

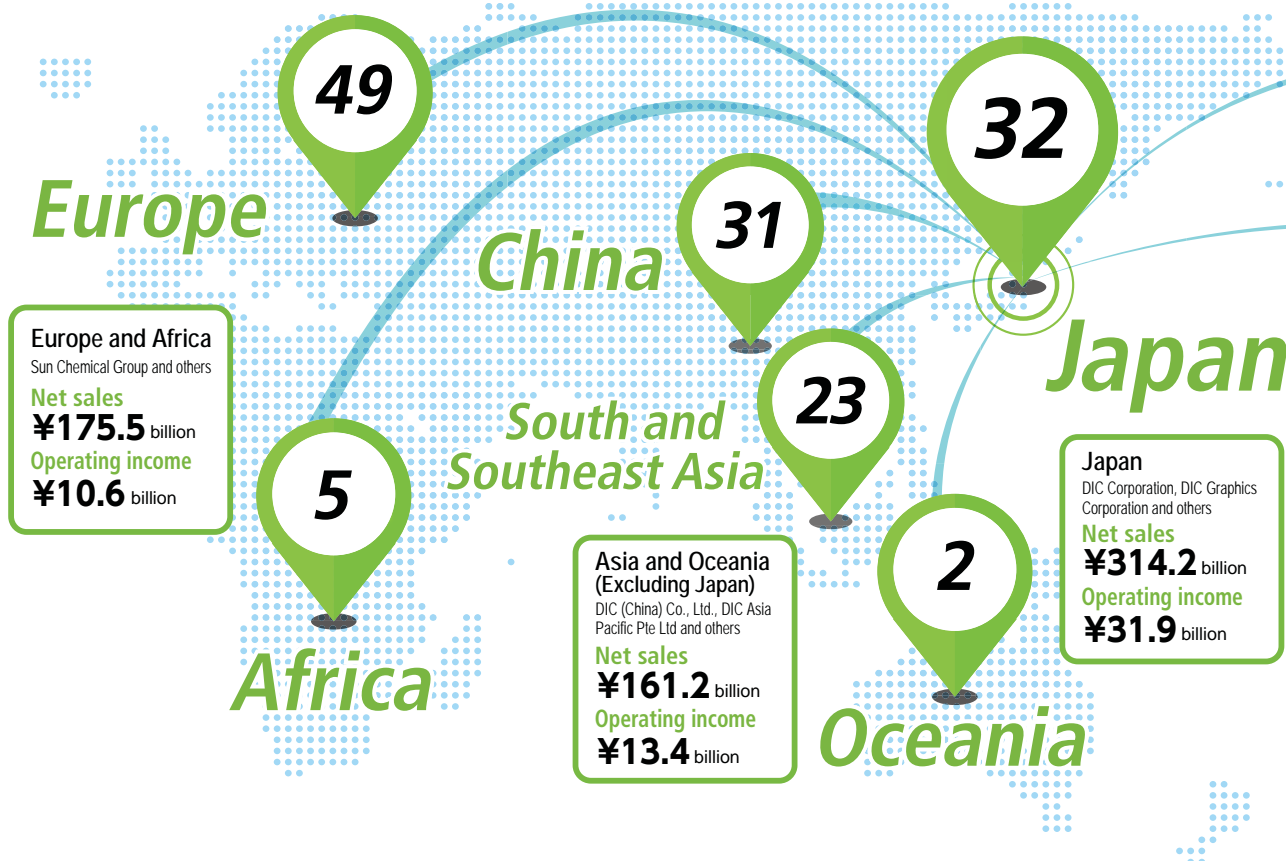
Registered name: **DIC Corporation**
 Corporate headquarters: DIC Building, 7-20, Nihonbashi 3-chome, Chuo-ku, Tokyo 103-8233, Japan
 Date of foundation: February 15, 1908
 Date of incorporation: March 15, 1937
 Paid-in capital: ¥96.6 billion
 Number of employees: 20,628
 (Nonconsolidated: 3,273)
 Number of subsidiaries and affiliates: 171 (Domestic: 32)
 (Overseas: 139)



Corporate headquarters (Tokyo)

Global Network

DIC has 171 companies in 64 countries and territories around the world.



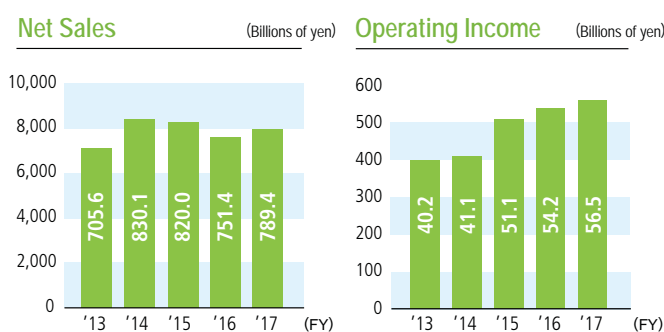
DIC (China) Co., Ltd.
(PRC)



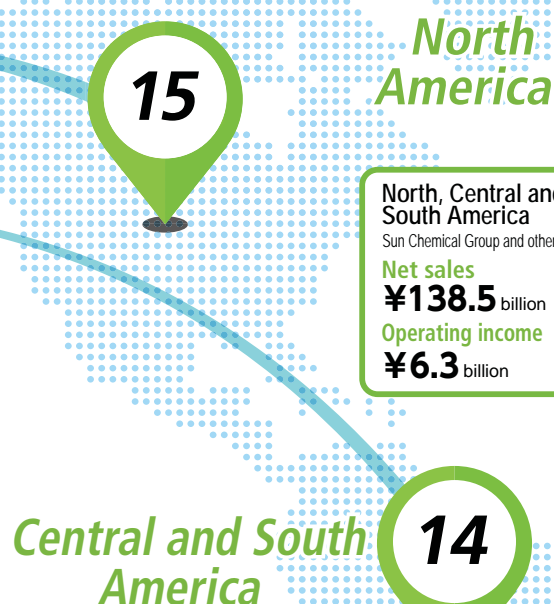
DIC Asia Pacific Pte Ltd
(Singapore)



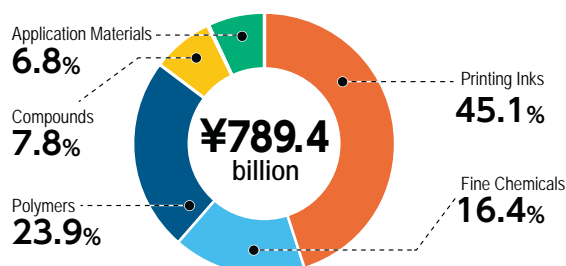
Sun Chemical Corporation headquarters (United States)



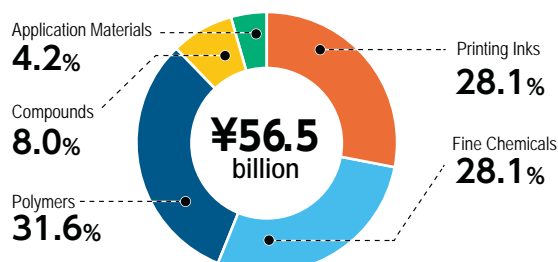
Notes: 1. The consolidated results for fiscal year 2013 comprise the accounts for the nine months ended December 31, 2013, of DIC and all but one of its domestic subsidiaries and the 12 months ended December 31, 2013, of its overseas subsidiaries and one domestic subsidiary.
2. Corporate data is as of December 31, 2017. Net sales and operating income are for fiscal year 2017.



Breakdown of Fiscal Year 2017 Net Sales by Segment

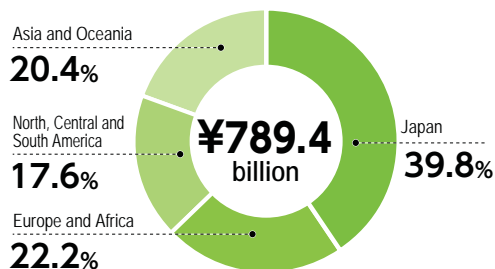


Breakdown of Fiscal Year 2017 Operating Income by Segment

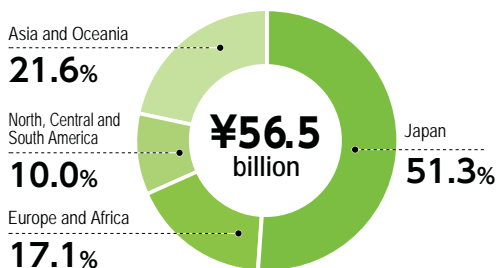


Note: Fiscal year 2017 net sales and operating income as used here include intersegment transactions. For this reason, and because of the existence of transactions classified as "others," which are not attributable to reportable segments, these figures differ from reported net sales and operating income.

Breakdown of Fiscal Year 2017 Net Sales by Region

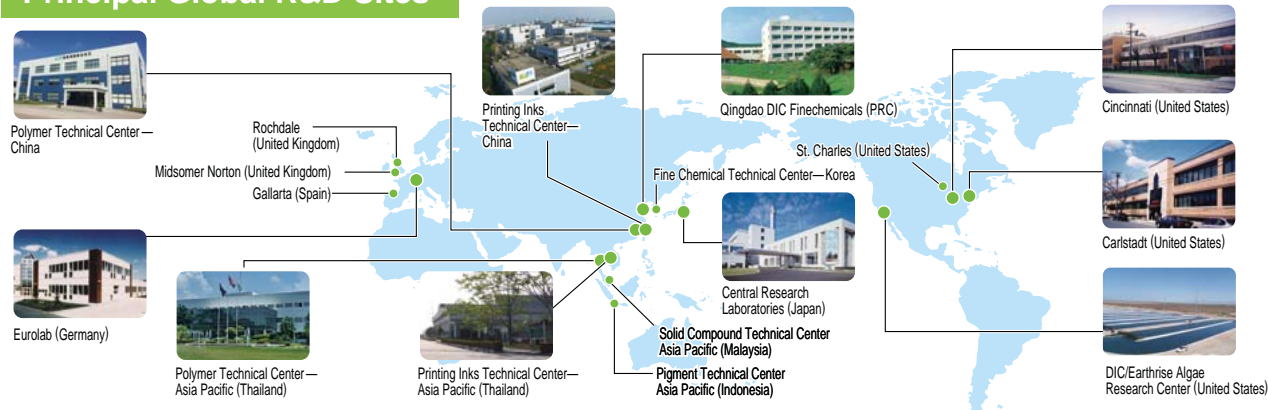


Breakdown of Fiscal Year 2017 Operating Income by Region



Note: Operating income as used here includes eliminations (approximately ¥5.8 billion). Accordingly, these percentages do not represent shares of reported operating income.

Principal Global R&D Sites



A Message from the President

Representative Director,
President and CEO
DIC Corporation

Kaoru Ino



Vision:

**A unique global organization
that is trusted by society**

- Contribute to global society guided by our Color & Comfort brand slogan
- Realize corporate value to which people can relate through the promotion of diversity
- Work with DIC Group employees, customers and shareholders to create value and build an appealing brand

Building on Our 110-Year History to Drive New Growth and Evolution

Ensuring that DIC remains a unique global organization that is trusted by society

In the period under review, I assumed the reins as representative director, president and CEO of DIC. Having accepted the appointment, I believe that my mandate is to do my utmost to carry out my duties, the most important of which is to build on the foundation established by my predecessors to drive new growth and evolution.

In fiscal year 2018, we are celebrating the 110th anniversary of DIC's establishment. Printing inks, a key business since the start, continue to account for the bulk of our sales. While marveling at the fact that we have inherited a 110-year-old business from our founders, I recognize that today we operate in an environment characterized by changes that differ in nature from anything we have ever faced before. For example, the telephone took more than 50 years to come into widespread use. In contrast, Facebook took only a year to gain worldwide popularity. Social structures continue to change drastically, owing primarily to three key factors, namely the next wave of advanced digital technologies, falling birth rates and issues related to financial resources to support the social safety net. The pace of change is astonishing. In a sense, I see this as the new normal. Amid such rapid and drastic changes, how do materials manufacturers contribute to society going forward? As we work to adapt resilient businesses passed on to us by our founders to this new normal, we must also look at how to handle change. I see responding effectively to these issues as an important mission.

In fiscal year 2017, the second year of our current three-year medium-term management plan, DIC108, we succeeded in achieving record consolidated income results. Net sales for the period amounted to ¥789.4 billion. Operating income and ordinary income were ¥56.5 billion and ¥57.0 billion, respectively. Net income attributable to owners of the parent was ¥38.6 billion. During the period, businesses that we expect to drive growth—notably functional pigments,

polyphenylene sulfide (PPS) compounds and packaging materials, in which we are concentrating our allocation of management resources on a global basis—continued to expand steadily, as we laid the groundwork for future growth, including through advance investments. Despite some of our businesses feeling the impact of rising raw materials prices and other external factors, we responded effectively by focusing our attention on launching products that meet market need and expanding sales of environment-friendly high-value-added offerings. Thanks to these and other efforts, we made solid progress toward achieving the objective of a key strategic initiative spearheaded by my predecessor, Yoshiyuki Nakanishi, namely, the realization of a robust earnings structure that is impervious to fluctuations in external factors such as raw materials prices and exchange rates.

In fiscal year 2019, we will embark on a new medium-term management plan. In considering the content of this plan and our mission, which defines what we ultimately aspire to be, we will endeavor to address increasingly varied and compelling social imperatives and contribute to the realization of a sustainable society. To this end, we must cultivate new businesses, in addition to printing inks, pigments and compounds, in which we have the potential to earn global market-leading positions.

Formulating a new medium-term management plan

In preparation for the launch of our new medium-term management plan, in fiscal year 2018 we are promoting extensive debate and discussion to determine critical changes needed for us to fulfill our mission, based on which we will formulate strategies from a medium- to long-term perspective. Our determination to respond to

Quantitative Targets

(Billions of yen/%)

	2015 Actual	2016 Target	2016 Actual	2017 Target	2017 Actual	2018 Forecast
Net sales	¥820.0	¥870.0	¥751.4	¥920.0	¥789.4	¥820.0
Operating income	¥51.1	¥54.0	¥54.2	¥58.0	¥56.5	¥58.0
Net income	¥37.4	¥25.0	¥34.8	¥30.0	¥38.6	¥40.0
ROE (return on equity)	15.0%	9.0%	12.9%	10.0%	13.0%	12.2%
Ordinary investments	¥34.0			¥120.0		
Strategic investments (M&As, etc.)	—			¥150.0		
D/C ratio*	47%			Around 50%		
Dividend payout ratio	21%			Around 30%		

* Debt-to-capital (D/C) ratio: Interest-bearing debt / (Interest-bearing debt + Net assets)

the dramatic changes taking place in society—to the new normal—remains firm.

In pondering our image of the DIC Group in the future, the key will be our Color & Comfort brand slogan. This unique slogan really conveys DIC's DNA. It encapsulates our desire to leverage the power of chemistry, drawing on our wealth of core technologies, to bring color and comfort to people's lives and, in so doing, to contribute to the realization of a richer, more vibrant society. This slogan is of course based on our management vision, Color & Comfort by Chemistry.

I have narrowed my focus for achieving these goals to areas that offer potential synergies with base technologies in our printing inks, pigments, polymers and other core businesses, implementing measures designed to bolster corporate value and build new businesses. Taking a distinctively DIC approach, we will focus on environment-friendly printing inks and polymers, packaging and healthcare businesses that contribute to food safety, and on liquid crystals (LCs), jet inks and pigments that enable us to provide a rich array of color materials. Such efforts would position us to resolutely fulfill our role in helping to address social imperatives and deliver value to society while concurrently adding muscle to our high-value-added businesses. Examples include packaging inks, which are unquestionably printing inks but unlike other printing inks are expected to see market growth in the future, as well as conductive and insulating inks, which from a technology perspective are completely different from conventional printing inks. For us, the challenge is as big as cultivating businesses in brand new domains. We intend to look at areas peripheral to businesses in which we have base technologies. At the same time, we will seek to further expand our business portfolio, and to improve its efficiency and soundness.

We will discuss ideas and encourage debate internally while at the same time envisioning what we aspire to 10 years down the road. From there, we will use backcasting to formulate our next medium-term management plan, which will kick off in fiscal year 2019. We will publish details of the plan—tentatively called DIC111—as soon as they are available.

Emphasizing innovation to drive further evolution

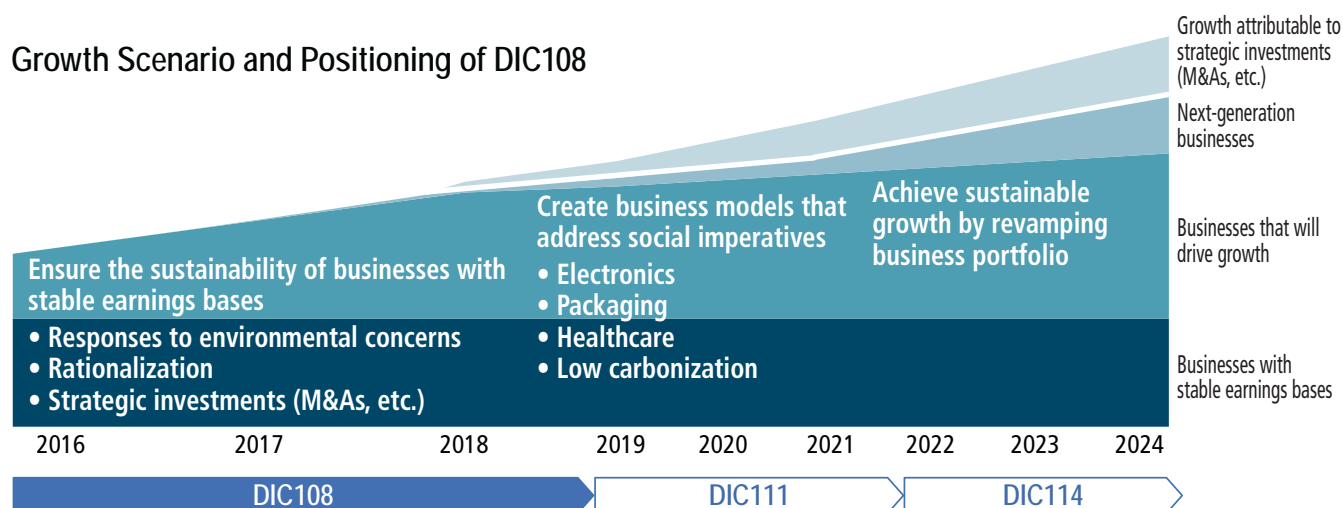
In January 2017, DIC announced a capital and business alliance with Taiyo Holdings Co., Ltd. Partnering with Taiyo Holdings, which commands a top-class share of the global market for solder resist, will position DIC well to develop products for the electronics sector, notably for printed wiring boards (PWBs). Under DIC108, we have identified electronics as a key next-generation theme, alongside carbonreduction, packaging and life sciences.

In the area of business development, Mr. Nakanishi was the first to demonstrate the importance of breaking free from our reliance on independent efforts and actively encouraging open innovation to capitalize on external resources. We are also promoting participation in global venture networks. Through such efforts, we are working to, among others, identify and promote new next-generation development themes and swiftly secure cutting-edge technologies to accelerate the creation of new businesses. We are also making flexible use of strategic investments, having budgeted ¥150.0 billion for this purpose over the three years of DIC108, to outline a new growth trajectory to internal and external stakeholders. By the final year of our next medium-term management plan, we aim to achieve a stable return on equity (ROE) of 10%-plus, underpinned by the value created through such new innovation, as well as consolidated net sales of around ¥1,000 billion and consolidated operating income in the area of ¥100 billion, thereby meeting the long-term targets set forth in DIC108.

Global value creation: The essence of the DIC Group

In considering our image of the DIC Group in the future, it is impossible to gloss over the importance of a global perspective. We conduct our operations through a network of 171 companies in 64 countries and territories. We are the world's leading manufacturer of printing inks; organic pigments, the principal raw material used in printing inks;

Growth Scenario and Positioning of DIC108



and PPS compounds—key engineering plastics—with global market shares of around 30%, 20% and 27%, respectively. Approximately 60% of consolidated net sales are outside Japan. In other words, a global perspective is critical for many reasons. One of these is the need to manage exchange rates that go hand in hand with our business activities, which is not one on one with the U.S. dollar, but involves multiple currencies, including the euro, the Turkish lira and the Indian rupee. It is all extremely complicated, but we have established a mechanism that enables us to effectively manage factors that cause exchange rate fluctuations.

I see our global character as a vital growth driver. We have established printing inks, polymer and PPS technical centers in key locations in Asia, Europe and elsewhere, enabling us to accurately grasp and swiftly address local needs. We are currently taking steps to reinforce our global management structure, including appointing a local executive to head up a key product division, as well as our regional headquarters, to ensure we remain abreast of rapid market changes. These moves have positioned us to maximize our unique strengths as a multinational group with R&D facilities and diverse human resources around the world. Since fiscal year 2016, we have been promoting ambitious global branding initiatives to bolster awareness of the value that we provide to stakeholders and encouraging employees to apply that awareness to their everyday work, and in doing so to help instill a greater sense of solidarity across the Group.

ESG as a central element of management

The DIC Group launched its corporate social responsibility (CSR) program in fiscal year 2007, later changing the designation used across this program from “CSR” to “sustainability.” Since then, we have steadily implemented initiatives in line with 11 key themes, ranging from “Compliance” to “Business models that respond to social imperatives.” In light of increasing awareness of social imperatives pertaining to environmental, social and governance (ESG)-related issues, effective from fiscal year 2018 we established the ESG Unit.

As a leading chemicals manufacturer, we are working to secure safety, reduce environmental impact and ensure the stringent management of chemical substances, which we view as fundamental to our operations and an essential responsibility. We are also taking steps to combat climate change—a universal challenge—including setting medium- to long-term targets for reducing our global emissions of CO₂ worldwide and focusing on the development of products that contribute to a low-carbon economy. In addition, we are deepening awareness of and redoubling efforts to address other critical issues, including minimizing industrial waste by recycling and reusing materials and addressing water risks.

In the area of global human resources, we acknowledge the importance of advancing diversity, including by valuing different philosophies and values. We have spelled out a goal of marshaling the diversity of the individuals that make up our labor force, recognizing the fact that we are in an age today where individuals can change society. In other words, we understand the absolute importance of promoting diversity



in management. A key component of this is to advance opportunities for female employees, a theme for which we have set a key performance initiative (KPI). As a group with roughly 20,000 employees in 64 countries and territories around the world, it is important to remain aware that we have a vast range of exceptional human resources that we must manage in a way that maximizes latent capabilities. To marshal the diversity of individuals, we will also work to ensure that employees feel like active participants.

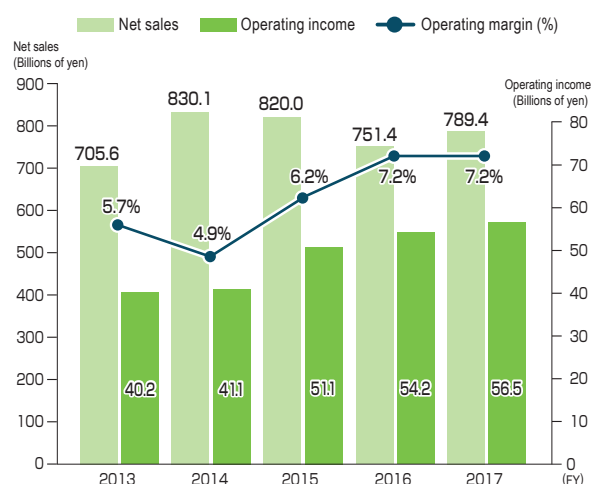
Finally, on the subject of governance, we have established a structure based on Japan's Corporate Governance Code and in fiscal year 2017 increased the number of independent outside directors on our Board of Directors with the aim of further reinforcing governance functions. We are also working to fortify our foundation as a global organization through measures ranging from reinforcing the governance capabilities of our subsidiaries, thereby strengthening the overall framework that underpins Group management, to strengthening our quality management system and ensuring compliance with new laws and regulations.

In Japan, you sometimes hear the phrase “a company is a public entity of society.” In the future, companies will be evaluated not only for their success in responding to change but also for their ability to be agents of change. From this perspective, as a distinctive global manufacturer of fine chemicals, we will continue to be guided by our Color & Comfort brand slogan as we actively take on the challenge of creating value for society.

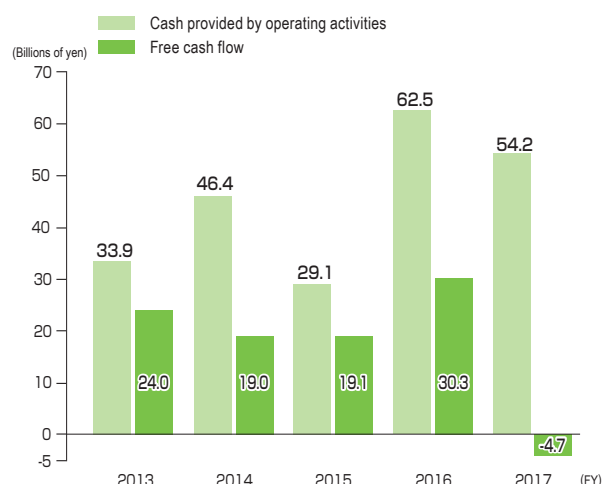
Financial Information

Note: The consolidated results for fiscal year 2013 comprise the accounts for the nine months ended December 31, 2013, of DIC and all but one of its domestic consolidated subsidiaries and the 12 months ended December 31, 2013, of its overseas subsidiaries and one domestic subsidiary.

Net Sales, Operating Income and Operating Margin

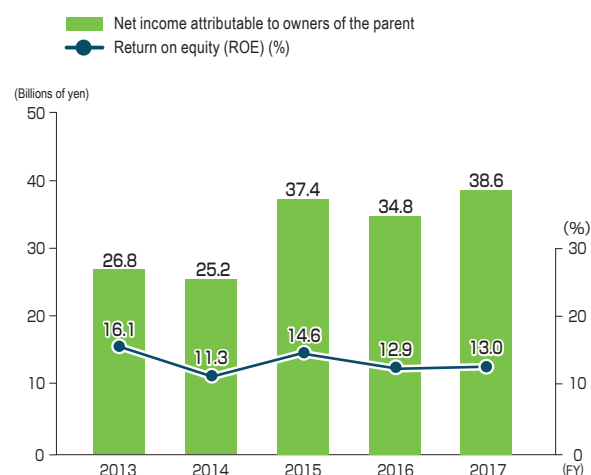


Cash Provided by Operating Activities and Free Cash Flow

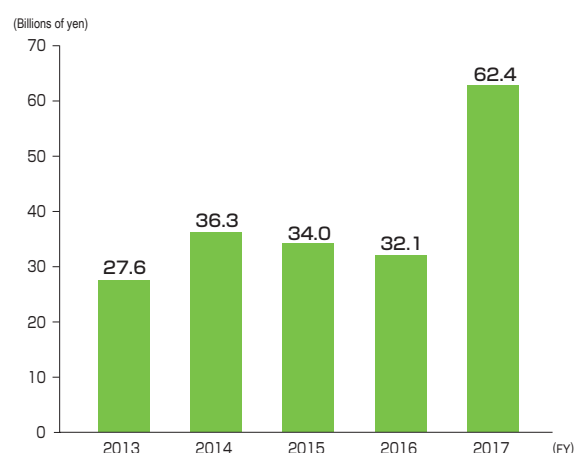


* Owing to an investment of ¥24.9 billion in Taiyo Holdings Co., Ltd., cash used in investing activities increased in fiscal year 2017.

Net Income Attributable to Owners of the Parent and ROE

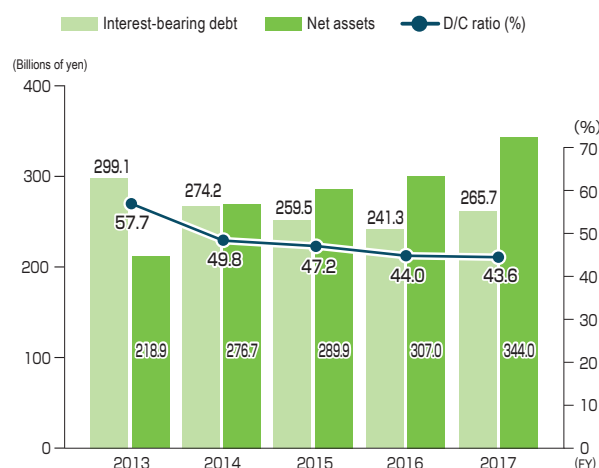


Capital Expenditure



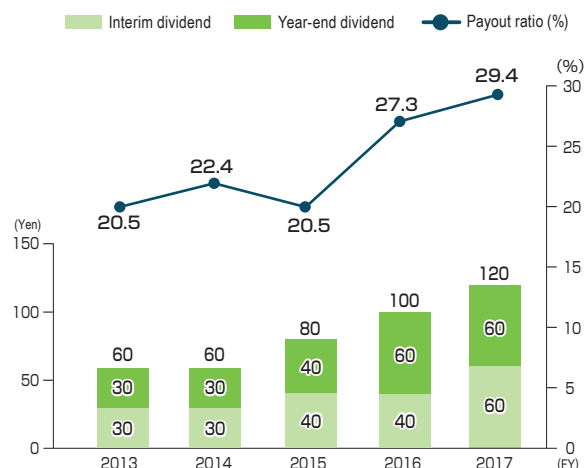
* Owing to an investment of ¥24.9 billion in Taiyo Holdings Co., Ltd., cash used in investing activities increased in fiscal year 2017.

Net Assets, Interest-Bearing Debt and D/C Ratio*



* Debt-to-capital (D/C) ratio: Interest-bearing debt / (Interest-bearing debt + Net assets)

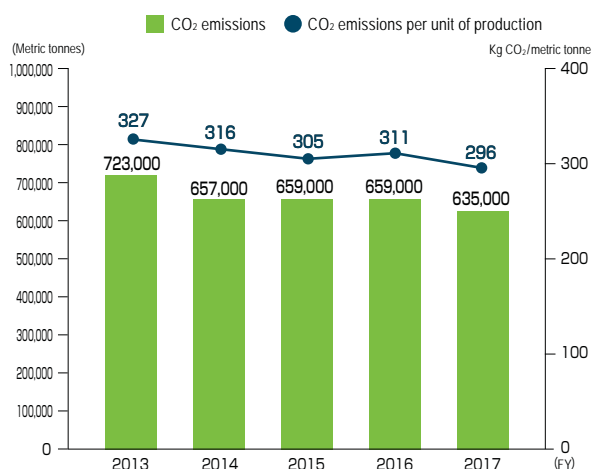
Returns to Shareholders* (Dividends per Share and Payout Ratio)



* Figures have been adjusted to reflect the impact of the consolidation of shares. (In fiscal year 2015, DIC purchased and retired treasury shares.)

Nonfinancial Information

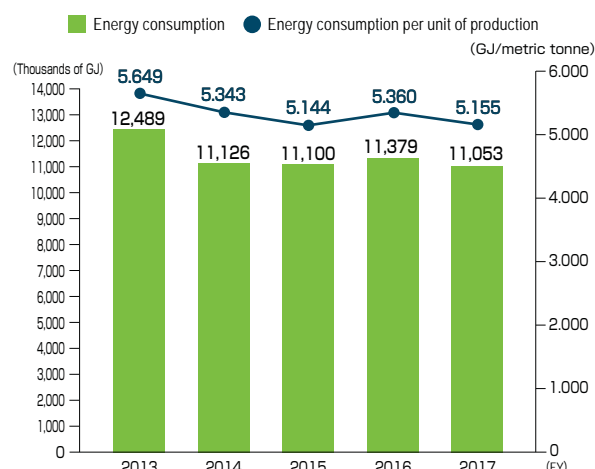
Global CO₂ Emissions and CO₂ Emissions per Unit of Production (DIC Group)



* Base year: Fiscal year 2013

** CO₂ emissions per unit of production is calculated using adjusted production volume (parent company in Japan only). (Notification submitted to Japan's Ministry of Economy, Trade and Industry)

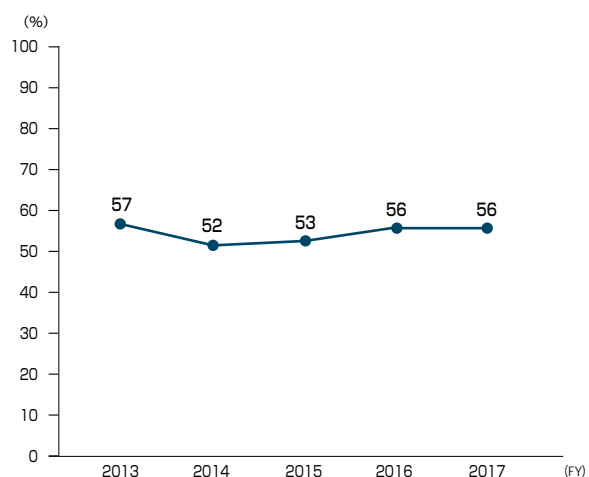
Global Energy Consumption and Energy Consumption per Unit of Production (DIC Group)



* Base year: Fiscal year 2013

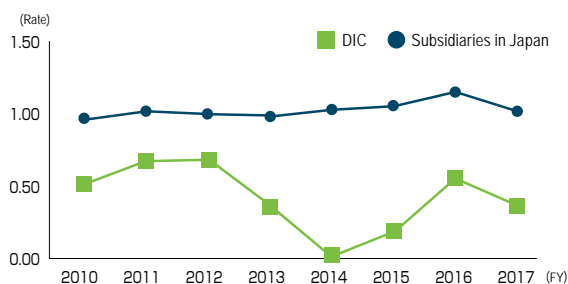
** Energy consumption per unit of production is calculated using adjusted production volume (parent company in Japan only). (Notification submitted to Japan's Ministry of Economy, Trade and Industry)

Environment-Friendly Products as a Percentage of Overall Product Portfolio (DIC Corporation and DIC Graphics Corporation)



* Owing to the introduction of a new SAP enterprise resource planning (ERP) system in fiscal year 2014, the method used to calculate environment-friendly products has changed.

Occupational Accident Frequency Rate (DIC Corporation)

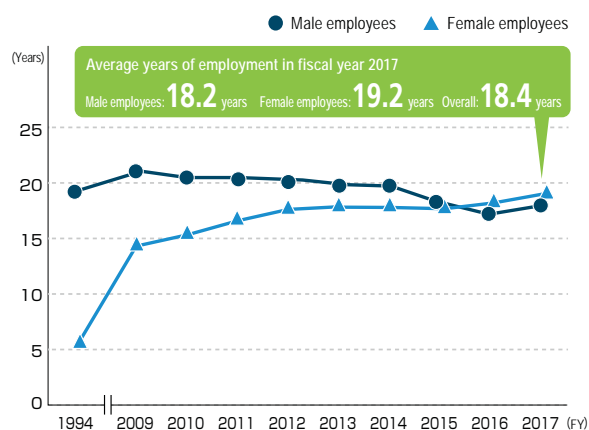


Note: The frequency rate expresses the frequency of accidents resulting in lost workdays in a fiscal year, calculated as the number of deaths or injuries per million work hours.

$$\text{Frequency rate} = \frac{\text{Number of deaths or injuries due to occupational accidents}}{\text{Total work hours}} \times 1,000,000$$

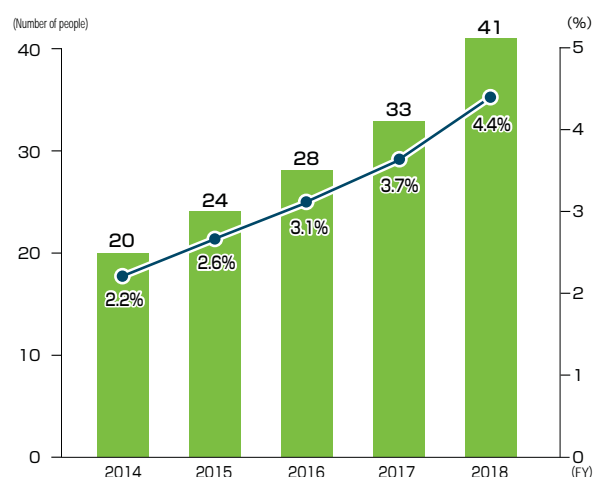
A frequency rate of 1.0 means one occupational accident resulting in workdays lost in one year at a site with 500 employees.

Average Years of Employment (DIC Corporation)



Average years of employment in fiscal year 2017
Male employees: 18.2 years Female employees: 19.2 years Overall: 18.4 years

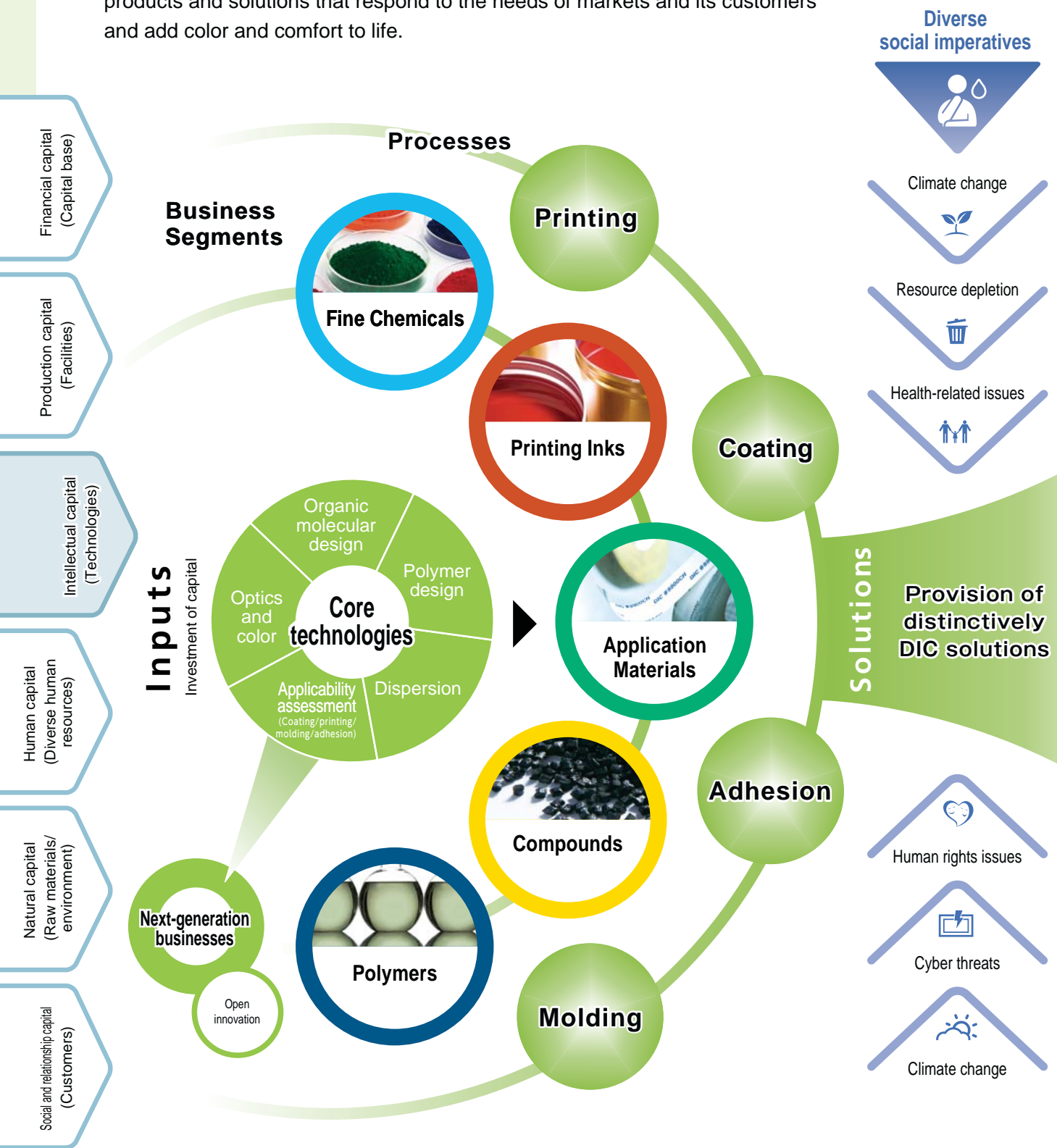
Female Employees in Management Positions (DIC Corporation)



Achieving Sustainable Growth

The DIC Group's Approach to Value Creation

With the aim of ensuring a sustainable society, the DIC Group strives to provide products and solutions that respond to the needs of markets and its customers and add color and comfort to life.



Color & Comfort

Realization of
colorful,
comfortable and
sustainable
lifestyles

Packaging



Healthcare



Automobiles



Electronics



Infrastructure



Consumer
goods



Food safety



Harmony
with the
environment



Joy and contentment



Outputs

Expansion of operations in promising markets

Outcomes

Value created

Remaining a distinctive company worthy of society's trust

Printing Inks

A Stable Business Since the Start



President, Printing Inks Segment **Hideo Ishii**



This segment focuses on printing inks, DIC's mainstay business since its establishment. A global market leader, DIC boasts an extensive product portfolio ranging from publishing inks to inks and adhesives for packaging, enabling it to respond to the needs of customers worldwide.

Key Products

Printing Inks Product Division

Offset inks; gravure inks; flexo inks; can coatings; news inks; packaging adhesives; printing supplies



Outstanding color reproduction and reduced energy consumption
DAICURE HR series
(High-sensitivity UV-curable offset inks)
As well as suitability for use with low-power UV printers, DIC's innovative *DAICURE HR* high-sensitivity UV-curable offset inks deliver outstanding color reproduction.



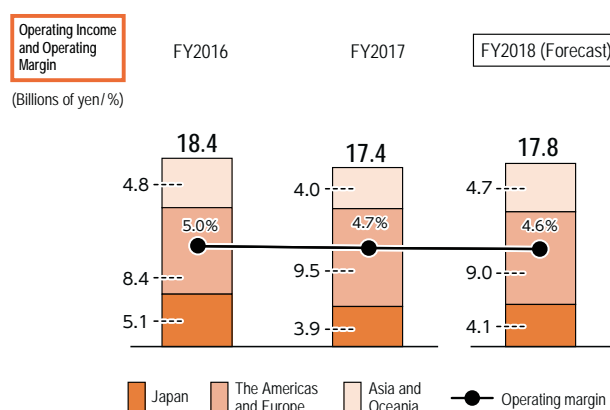
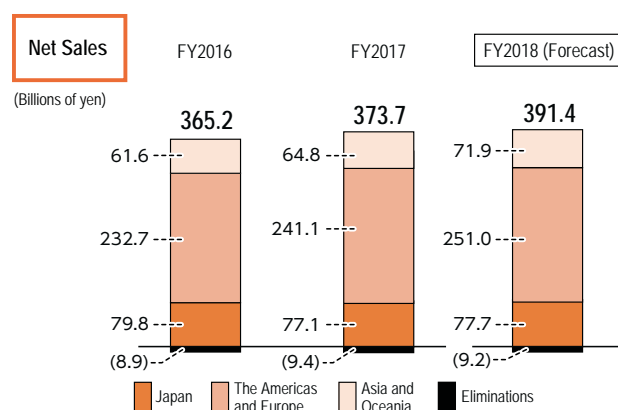
Ensuring safety for food and the environment

FINART series
(Gravure inks for food packaging)

FINART gravure inks combine superb image quality and suitability for high-speed printing. They also respond to demand for the reduction of solvents in food packaging and for compliance with safety regulations in different markets, thereby contributing to safety for food and the environment.

Segment Operating Results

For more information, please see Segment Results on page 53.



I Business Strategies Under DIC108

Rationalize operations in mature markets and shift focus to packaging inks

Recent years have seen a tapering of demand for publishing inks, news inks and other inks for paper-based print media, particularly in mature markets such as Japan, North America and Europe, owing to the burgeoning popularity of digital media. Since its previous medium-term management plan, which ran from fiscal year 2013 through fiscal year 2015, the DIC Group has sought to strengthen the printing inks business by advancing three core strategies, which are to further rationalize operations in mature markets, to augment operations in promising emerging economies and to shift its business focus to packaging inks, for which demand is rising worldwide. Under DIC108, the Group is taking decisive steps to reinforce its presence in emerging economies, keeping a close eye on demand trends. At the same time, the Group is working to optimize its regional production configurations and elevate sales of segment products, particularly environment-friendly inks, functional coatings and adhesives.

Expand operations by focusing on promising markets and products

The DIC Group is reinforcing its production capabilities, placing an emphasis on the Middle East, South America and key Asian markets such as the Philippines and Vietnam. In both emerging and developed economies, the Group is focusing its allocation of resources on environment-friendly products for food packaging applications, including packaging inks, functional coatings and adhesives. Through these efforts, together with those in related businesses such as films, the Group will continue striving to provide total packaging materials solutions that respond to the needs of both consumers and brand owners.

I Progress of Major Initiatives in Fiscal Year 2017

In the area of packaging inks, demand continued to increase in Japan, North America and Europe, underpinned by increasingly sophisticated consumer lifestyles. Demand in emerging economies also continued to expand, owing to population growth and rising living standards.

Evocative of the DIC Group's commitment to promoting recycling and reuse, in Japan the period brought the launch of a rice ink, an innovative environment-friendly printing ink made with recyclable materials derived from biomass, namely, rice bran. In addition to being included in the list of rice inks approved by Japan's Rice Ink Consortium, the new ink has gained Biomass Mark certification from the Japan Organic Recycling Association (JORA). The Group was also active in emerging economies, establishing a joint venture in Saudi Arabia. Packaging inks account for more than 70% of the printing inks market on the Arabian Peninsula, where the annual market for such inks is projected to continue growing at between 5% and 10% for the foreseeable future. With the aim of expanding the

Group's presence in this strategically important market, Sun Chemical Corporation formed a joint venture with the region's leading printing inks manufacturer in terms of market share. Sun Chemical has long had operations on the Arabian Peninsula. The Group will move swiftly to maximize synergies between the local partner's marketing capabilities, which reflect its familiarity with the market, and Sun Chemicals' technologies to provide top-quality products and superior services.

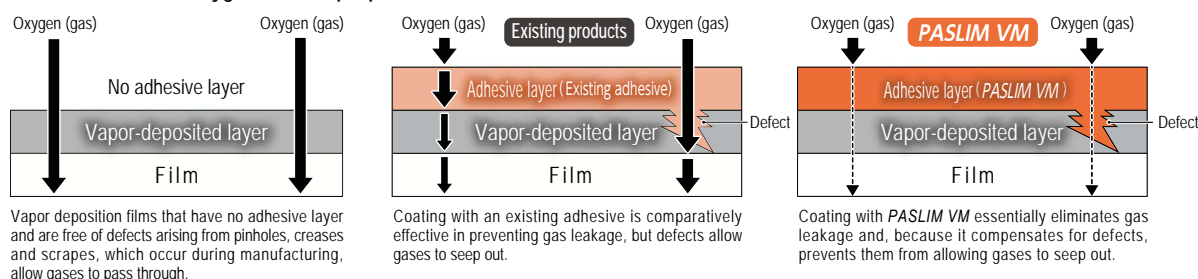


DIC Launches the *PASLIM VM* Series of Dry Laminating Adhesives that Enhance the Oxygen-Barrier Properties of Vapor Deposition Films

HIGHLIGHT

In fiscal year 2017, DIC developed the *PASLIM VM* series of dry laminating adhesives, which improve the oxygen-barrier properties of food packaging materials made with vapor deposition films. This groundbreaking product compensates for scratches and cracks in the vapor-deposited layers to which it is applied, enhancing such layers' inherent oxygen-barrier properties to achieve a performance level close to that of aluminum foil, thereby helping to reduce food loss and simplify packaging. In addition, although DIC's new dry laminating adhesive exhibits excellent handling properties equivalent to those of conventional products, the high solid design means that its emissions of volatile organic compounds (VOCs) are 50% lower than those of existing DIC adhesives. As well as complying with codes and standards for packaging based on Article 18 of Japan's Food Sanitation Act (Ministry of Health, Labour and Welfare Ordinance No. 370), the product has met the U.S. Food and Drug Administration (FDA)'s 175.105 regulation for adhesives used in food packaging.

PASLIM VM reinforces oxygen-barrier properties



Fine Chemicals

Optronics Materials and Other High-Value-Added Products



President, Fine Chemicals Segment **Kazuo Hatakenaka**



Products in this segment include a wide variety of materials indispensable to digital devices, including organic pigments for color filters and LC materials, which are expected to drive growth for DIC in the years ahead.

Key Products

Pigments Product Division

Organic pigments; special effect pigments; metal carboxylates; sulphur chemicals (lubricant additives)



A marked increase in brightness and reduced LCD energy consumption

G58 series (Green pigments for color filters)

In developing the G58 series of green pigments, DIC defied conventional wisdom by using zinc, rather than copper, as the central metal, which achieves a marked increase in brightness and reduces energy consumed by the liquid crystal display (LCD).

Liquid Crystal Materials Product Division

Thin-film transistor (TFT LC) materials; Supertwisted nematic (STN) LCs



Responding to the evolution of LCDs

TFT LC materials

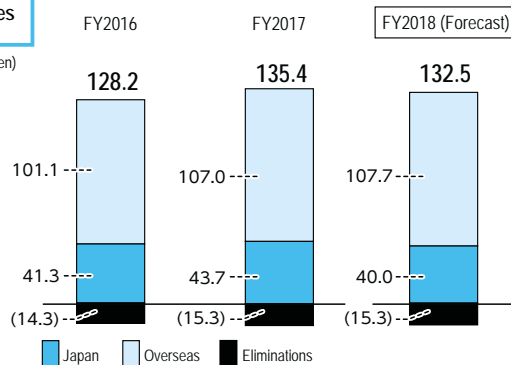
The production of TFT LCs demands advanced technological expertise. DIC is one of only a few companies in the world with such expertise. DIC's technologies ensure it is able to provide products that respond to demands for faster response times and greater long-term reliability.

Segment Operating Results

For more information, please see Segment Results on page 53.

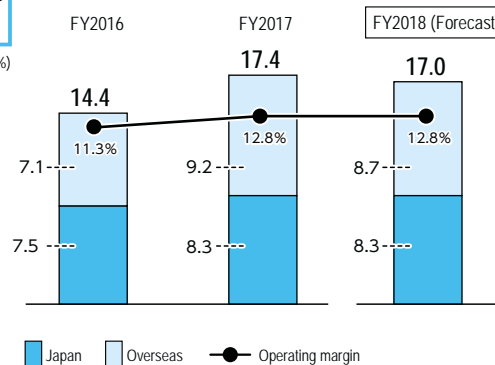
Net Sales

(Billions of yen)



Operating Income and Operating Margin

(Billions of yen / %)



Business Strategies Under DIC108

The DIC Group is powering growth in this segment by increasing value added. To this end, the Group is capitalizing on its continuous product development and solid supply configuration to bolster its share of the markets for the segment's two key strategic products: functional pigments and TFT LCs.

Pigments

With the market for organic pigments for publishing inks—the principal source of demand for these products—shrinking, the DIC Group is working to increase sales of functional pigments for niche and high-growth applications, including pigments for color filters, pigments for cosmetics and special effect pigments. In the area of pigments for color filters, the Group will broaden its lineup of products that help improve color and functions. The Group is also striving to augment its recently acquired special effect pigments business in Europe by bolstering sales of high-value-added products and reinforcing its production capacity for pigments used in building materials. To expand its pigments for cosmetics business, the Group has broadened its focus to include pigments for skincare products and is taking steps to increase its production and sales of red pigments, demand for which continues to rise, as well as to boost sales in Japan.

LCs

With an emphasis on n-type TFT LCs, the principal type of LCs used in large-scale displays in LCD televisions and other devices and is actively bringing new products to market, the DIC Group is actively allocating resources to the development of new products. The Group is also maximizing its technical and production base in Qingdao to augment its operations in the People's Republic of China (PRC), which is expected to be a major center of LCD manufacturing going forward.



TFT LCs used in LCD televisions

Progress of Major Initiatives in Fiscal Year 2017

Pigments

Owing to the strengthening of laws and regulations pertaining to color materials for cosmetics, demand for the DIC Group's pigments for cosmetics—which comply with laws enforced by the U.S. FDA and its counterparts in other countries—grew rapidly, particularly in Asian markets. Demand for special effect pigments continued to expand steadily in Eastern Europe, the Middle East and Asia, underpinned by the Group's technologies for controlling density, compression strength and thermoconductivity, which are expected to support sustainable growth for this business in the years ahead.

LCs

Fiscal year 2017 brought the development of groundbreaking nanophase separated (NPS) LCs that boost LCD response speed, which is critical to picture quality for sports and other content involving high-speed action. Because they allow control of response speed, applied voltage and

transmissivity, the new NPS LCs facilitate the design of new LCDs that respond to advanced performance requirements. The launch of this and other high-performance products is expected to bolster sales of LCs.



Sun Chemical Pigments for Cosmetics Receive Approval Under Europe's COSMOS Standard for Natural and Organic Cosmetics

HIGHLIGHT

Sun Chemical's *SunPURO*® Oxides ECOCERT®-certified series of organic pigments for cosmetics recently received approval under Europe's unified COSMOS (COSMetic Organic Standard) for natural and organic cosmetics. A premium line of pigments for cosmetics, *SunPURO*® pigments boast an extremely low heavy metal (naturally occurring inorganic material) content and are used in foundation, base makeup and mascara, among others. COSMOS approval was earned by the four pigments comprising the *SunPURO*® Oxides series: Red iron oxide, yellow iron oxide, titanium dioxide (white) and black iron oxide.

COSMOS was developed by an independent nongovernmental organization established in 2010 by five organizations, including ECOCERT, based in four European countries (France, Germany, Italy and the United Kingdom), with the aim of creating a unified global standard. Owing to the lack of a standard for natural cosmetics at the time, COSMOS was later adopted as a unified standard for Europe. COSMOS is currently attracting attention as a promising candidate to become a single global standard.

* ECOCERT is an independent organic certification organization that provides assessment and certification for compliance with European standards for designating products "organic."



Attestation of conformity with COSMOS

Polymers

DIC's Second Core Business



President, Polymers Segment **Toshio Hasumi**



Capitalizing on DIC's world-class technologies and know-how, this segment provides synthetic resins and resin-related products to a wide array of industries.

Key Products

Polymers Product Division

Waterborne resins; ultraviolet (UV)-curable resins; acrylic resins; methacrylate resins; epoxy resins; phenolic resins; fluorochemicals; polyurethane resins; polyester resins; plasticizers; unsaturated polyester resins; polystyrene; alkylphenols



Environment-friendly next-generation adhesives that respond to diverse needs

TYFORCE series
(Moisture-curing hot melt adhesives)

This series of solvent-free adhesives delivers superb production efficiency and bonding strength. These resins have been adopted for a wide range of applications, including building materials, apparel and electronic components.



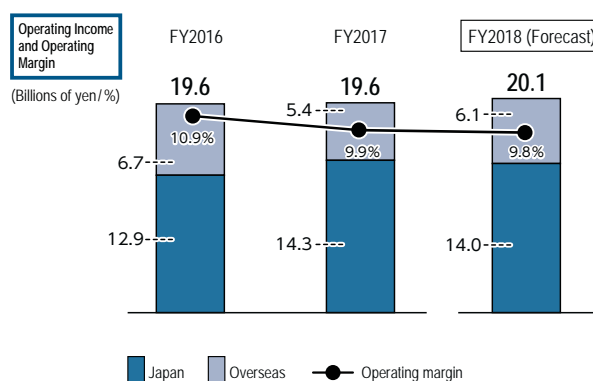
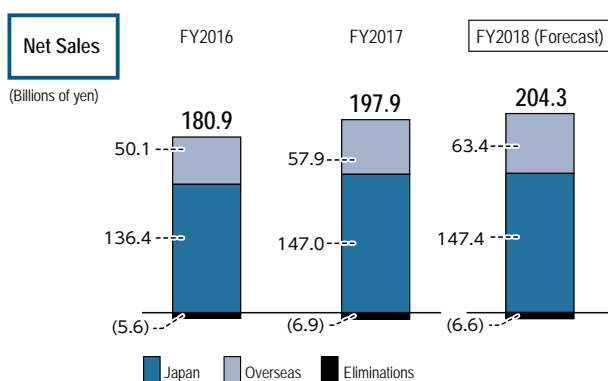
Technologies that facilitate the control of light for applications ranging from display cases to optical fibers

DEFENZA OP series
(Low-refractive index UV-curable resins)

Used for optical fiber cladding and optical coatings, the DEFENZA OP series of low-refractive index UV-curable resins helps improve the performance of optical fibers and the brightness of display cases.

Segment Operating Results

For more information, please see Segment Results on page 53.



I Business Strategies Under DIC108

Product strategy

The DIC Group is concentrating management resources on strategic products, namely, waterborne, UV-curable, acrylic, polyurethane and polyester resins, and accelerating global development with a focus on promising markets, notably those for coatings and adhesives in Asia.

Regional strategy

Capitalizing on technical centers established in Thailand and the PRC, the Group is responding to increasingly stringent environmental regulations by offering waterborne, solvent-free and other environment-friendly products, as well as by advancing the development and sale of offerings that respond to needs for general-purpose products and boosting overseas sales as a percentage of overall segment sales.

With demand on the decline in Japan, the Group is integrating and closing production lines while at the same time pursuing markets for polyurethane and UV-curable resins for niche and high-performance applications, thereby lifting the weighting of high-value-added products in its portfolio.



Demand for environment-friendly products for use in coatings is increasing overseas

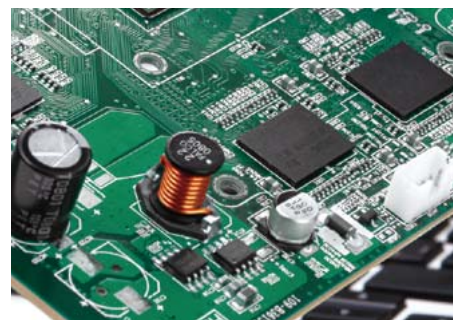
I Progress of Major Initiatives in Fiscal Year 2017

Environmental initiatives

In Japan, a new series of polyester resins for use on precoated metal was developed and launched. In addition to reducing emissions of VOCs when forming coatings, this new global-standard series complies with the world's most stringent regulations governing chemical substances. Overseas, a polymers subsidiary in Thailand installed and began using solar panels, thereby reducing its emissions of CO₂, a move designed to combat global warming.

Regional trends

In Japan, shipments of high-value-added products rose. With sales of polystyrene robust against a backdrop of rising demand for use in packaging for ready-made foods, domestic production capacity was expanded by approximately 20%. In overseas markets, overall shipments of waterborne resins and other environment-friendly products increased.



DIC Increases Production Capacity for Polystyrene Used in Packaging for Prepared Foods

HIGHLIGHT

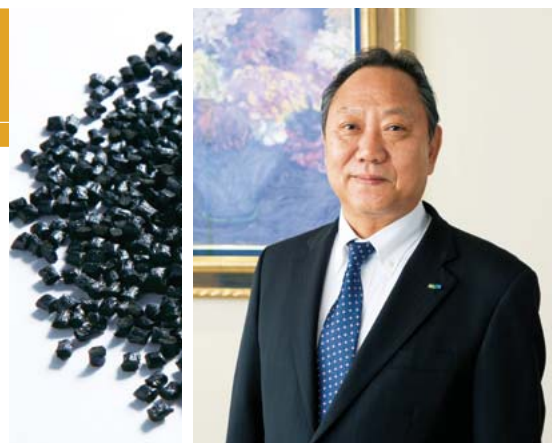
By reinforcing facilities and optimizing production processes, DIC increased the annual production capacity of the Yokkaichi Plant, located in Yokkaichi, Mie Prefecture, from 171,000 metric tonnes to 208,000 metric tonnes. In addition to general-purpose *DICSTYRENE*, which boasts excellent transparency and impact resistance, and *HYBRANCH* hyperbranched polystyrene, a high-performance product that offers both strength and superb moldability, DIC's polystyrene lineup includes *RYULEX* transparent heat-resistant styrene-based resins. Valued for its transparency, foamability and moldability, polystyrene is odorless, making it a popular choice for use in food trays for lunch boxes and prepared foods sold at, for example, convenience stores and supermarkets. DIC will further strengthen its polystyrene production configuration to ensure stable supplies.



Yokkaichi Plant

Compounds

New Value Created through Dispersion and Compounding Technologies



President, Compounds Segment **Masanobu Mizukoshi**



This segment leverages resin and pigment dispersion and compounding technologies accumulated since DIC's founding to provide products that respond to needs in the expanding global digital printing, automotive and electronics markets.

Key Products

Liquid Compounds Product Division

Jet inks; fiber and textile colorants and artificial leather colorants; high-performance coatings and adhesive materials; coatings for optical films



Helping customers realize outstanding color development and gloss
SunJet series

Advanced DIC Group pigment dispersion technologies ensure excellent color development and a glossy finish. With a reputation for reliability, the SunJet series of jet inks enjoy popularity in markets around the world.

Solid Compounds Product Division

PPS compounds; high-performance compounds; plastic colorants; high-performance optical materials



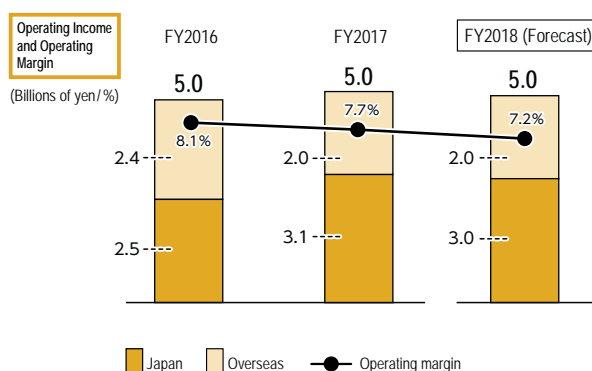
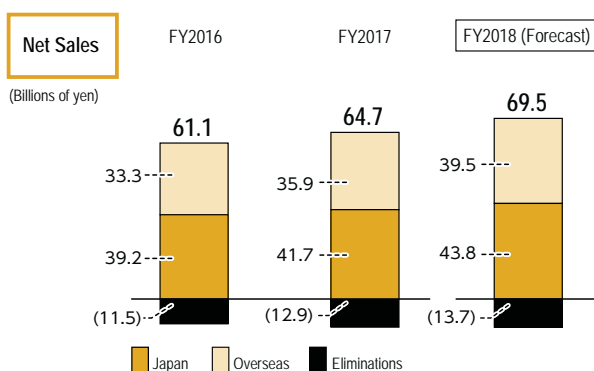
Contributing to the realization of lighter, more fuel-efficient vehicles

DIC.PPS series (PPS compounds)

The DIC Group's PPS compounds boast excellent heat and chemical resistance, rigidity, strength and electrical insulating properties, as a result of which they have found application in components for hybrid, electric and other environment-friendly vehicles as an alternative to metal materials, which helps reduce vehicle weight.

Segment Operating Results

For more information, please see Segment Results on page 53.



I Business Strategies Under DIC108

The DIC Group is leveraging its growth-driving basic and composite technologies to continuously bring new products that satisfy the needs of users to market in the strategically important areas of jet inks and PPS compounds. Through such efforts, the Group is striving to realize a higher growth rate than the market.

Jet inks

To date, the DIC Group has sought to augment this business by focusing on high-value-added water-based and UV-curable jet inks, primarily for industrial and office-related applications. In addition to boosting sales in these markets, the Group is expanding efforts to market products for new applications such as textiles and ceramics, demand for which is expected to rise.

PPS compounds

Valued for their excellent heat and chemical resistance, PPS compounds are used widely as an alternative to metal materials in components for automotive engines and electronics equipment. To maintain its leading share of the global market, the DIC Group is promoting the expansion of production facilities with the aim of stabilizing its global supply configuration. The Group is also increasing the number of employees in sales and technical services for key automobile and automotive component manufacturers to enhance the accuracy and speed with which DIC Group products obtain approval from manufacturers.

I Progress of Major Initiatives in Fiscal Year 2017

Jet inks

Capitalizing on its competitive advantages, the DIC Group took steps to enhance cooperation with printer and printer head manufacturers to expand its sales channels. The Group also pressed ahead with ongoing development efforts with the goal of building new businesses, including products for office-use multifunction printers (MFPs), textiles and ceramics.

PPS compounds

The reduction of fuel consumption is a principal focus of efforts across the automobile industry. To this end, manufacturers are stepping up efforts to use alternatives to metal materials in a bid to lower vehicle weight. Reflecting this trend, the year saw steadily expanding shipments of PPS compounds for use in fuel-efficient vehicles, notably hybrids, in Japan. In India, the Group responded to voracious demand by adding three new sites to its local sales network. The Group also added people to its sales force in North America, thereby fortifying its local sales configuration.



PPS compounds production facility in the PRC

Solid Compound Technical Center Asia Pacific is Established

HIGHLIGHT

With the aim of developing and improving products suitable for markets in Southeast and South Asia, and to strengthen its technical service structure in the PPS compounds and resin colorants businesses, DIC established the Solid Compound Technical Center Asia Pacific on the premises of DIC Compounds (Malaysia) Sdn. Bhd. In addition, injection molding machines and equipment for use in evaluating material properties that are compatible with engineering plastics were installed, thereby creating a system that can respond in a timely manner to the needs of regional customers. In addition to PPS compounds production facilities in Japan, the PRC, Australia and Malaysia, the DIC Group now has technical centers in Japan, the PRC and Europe. The new facility in Malaysia further strengthens the Group's integrated global product development, improvement and technical service configuration.



Solid Compound Technical Center Asia Pacific

Application Materials

A Variety of Products Made Possible by the Integration and Application of DIC Technologies



President, Application Materials Segment **Shinsuke Toshima**



This segment encompasses a diverse range of products, including industrial adhesive tapes, hollow-fiber membranes and modules, and coextruded multilayer films, which are made possible through the integration of proprietary materials and coating, printing, molding and other technologies.

Key Products

Application Materials Product Division

Industrial adhesive tapes; magnetic tapes and coated sheets; hollow-fiber membranes and modules; coextruded multilayer films; health foods and natural colorants; decorative boards, interior housing products and coatings for building materials; decorative sheets and decorative films; processed sheet molding compounds (SMCs), bulk molding compounds (BMCs) and other products; molded plastic products



Enhancing waterproof smartphone construction

DAITAC WS#84 series
(Double-sided adhesive tapes for waterproof mobile communications devices)

One of the first series of waterproof tapes to be developed and marketed for waterproof smartphone construction, the **DAITAC WS#84** series continues to support efforts to enhance the ability of smartphones to resist water ingress.



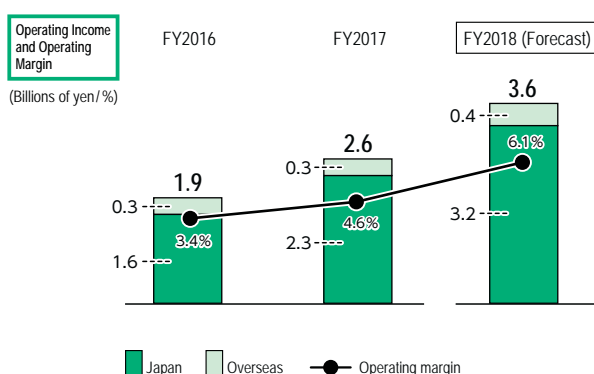
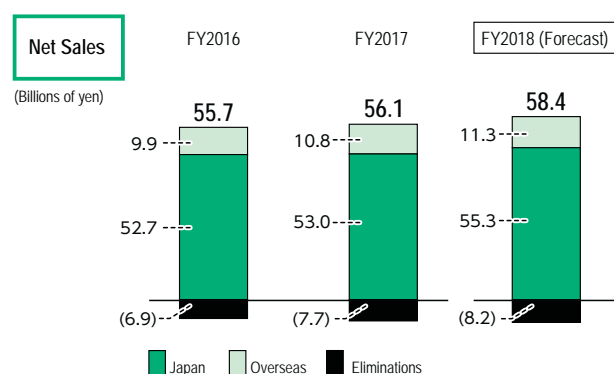
A superfood that provides a balanced wealth of nutrients

DIC Spirulina

Spirulina is an edible blue-green algae rich in vitamins, minerals and B-Carotene that boasts an excellent amino acid balance. Spirulina's nutritional value and popularity as an ingredient not only in health foods but also for culinary applications has earned it a reputation as a superfood.

Segment Operating Results

For more information, please see Segment Results on page 53.



I Business Strategies Under DIC108

Having devised a new growth model, the DIC Group is stepping up the expansion of its electronics and life sciences business. At the same time, the Group is promoting decisive rationalization of its housing products business.

Electronics and life sciences

In industrial adhesive tapes, the DIC Group is accelerating spec-in initiatives with global brand owners, as well as with nascent local brand owners in the PRC, with the goal of bolstering adoption for use in smartphones and tablets. The Group is also promoting development efforts with a view to entering the market for vehicle-mounted displays in the future. In hollow-fiber membranes and modules, the Group is working to sustain high growth for degassing modules used in inkjet printers, for which it holds the leading global market share, and to make a full-scale entry into the market for large

degassing modules for water treatment applications. The Group's aims in the area of health foods are to maintain high sales of Spirulina, a highly rated superfood, and to expand sales of Spirulina-derived natural blue food coloring *Linablue*® in North America and Europe, taking advantage of a shift in market preferences from synthetic to natural food colorings.

Housing products

In the area of unsaturated polyester resin molded products, the DIC Group continues working to improve profitability through restructuring measures and decisive cost reductions. In laminated products, the Group is revamping its business model for *DIC200*, a key strategic building material, and implementing dramatic structural reforms. The Group is also working to enhance the accuracy and accelerate the process of gaining certification for segment products.

I Progress of Major Initiatives in Fiscal Year 2017

Electronics and life sciences

Shipments of industrial adhesive tapes increased, led by products for automobiles and smartphones. In the area of hollow-fiber membranes and modules, the DIC Group augmented its lineup of products for the degassing of jet inks and the production of ultrapure water for use in semiconductor fabrication processes, by introducing a new decarbonizing module and, in anticipation of healthy demand, introduced a new model with a high flow rate. In health foods, the DIC Group expanded its production capacity for its natural blue food coloring.

Housing products

Newly developed products included a sheet-form passive heat storage material that effectively harnesses solar heat to maintain comfortable room temperatures. Created by dispersing a phase change material (PCM) in resin, this innovative material can be processed at construction sites, something not possible with conventional materials, for easy use in housing construction. Because it can also be used as a cold storage material, the DIC Group is also marketing it for use in the constant-temperature transportation of pharmaceuticals, as well as for horticultural applications.



Hollow-fiber membrane module for degassing and aerating liquids

DIC Builds New Production Facility for Hollow-Fiber Membrane Modules Used for Degasifying Jet Inks

HIGHLIGHT

DIC built a new plant for manufacturing small hollow-fiber membrane modules for degassing and aerating liquids in the *SEPAREL*® series, which are used in the degassing of inks for industrial inkjet printers, on the site of its Chiba Plant. DIC, which entered the hollow-fiber membrane business in 1989, manufactures proprietary membranes comprising 200–250 μm -diameter hollow fibers and a nonporous surface skin layer with a thickness of 1 μm . Hailed for significantly reducing the negative consequences of degasification, these products currently command a 70% share of the global market for membrane modules used in inkjet printers. Going forward, the Company will work to further grow its leading global market share.



New production facility

TOPIC

1

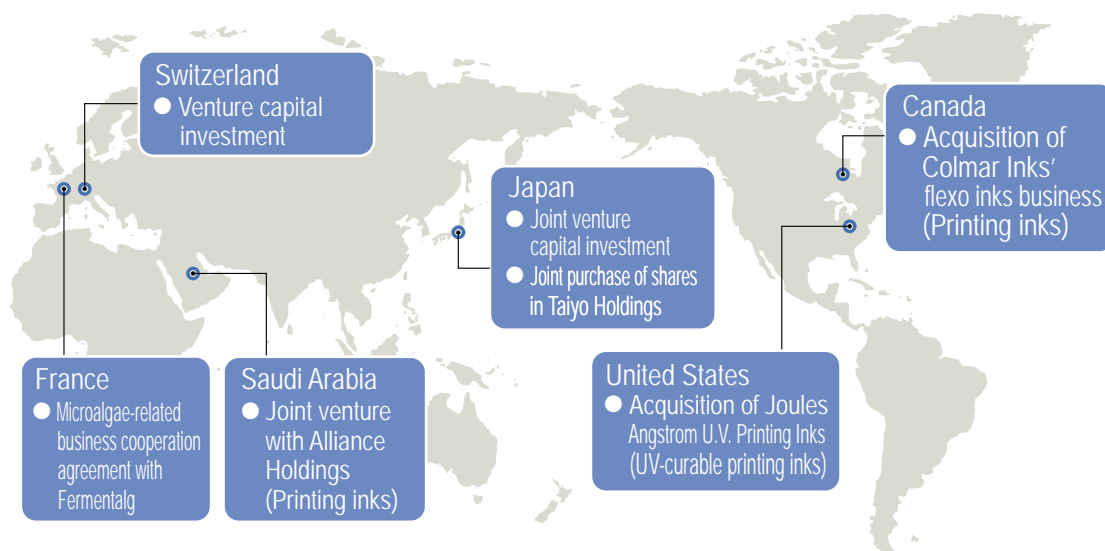
Strategies for Sustainable Growth: Progress Report

DIC has included a specific quantitative target of ¥150.0 billion for strategic investments, including in mergers and acquisitions (M&As), over the three years of its current medium-term management plan, DIC108. In fiscal year 2017, the Company made a number of investments with the aim of making use of external resources in a manner that aligns with the fundamental goals of DIC108, which are to stabilize the earnings of its core businesses, expand businesses that will drive growth and create next-generation businesses.

1 Capital and Business Alliance with Taiyo Holdings and Other Strategic Investments

On January 25, 2017, DIC announced a capital and business alliance with Taiyo Holdings, as a result of which Taiyo Holdings became an equity-method affiliate of DIC. Total investment by DIC, which amounted to ¥24.9 billion, was subsequently completed. The alliance brings together the DIC Group's materials development capabilities, which draw on its core technologies, and Taiyo Holdings' extensive supply chain, which encompasses solder resist and PWBs, to promote the swift and efficient development of molded interconnect devices (MIDs) and other next-generation materials. In September 2017, DIC signed a global, multiyear cooperative agreement with Fermentalg of France, a leader in the production of algae for nutrition and health applications. This partnership will bring together Fermentalg's unique microalgae strain bank and integrated biotechnology platform with DIC's significant applied research, mass production capabilities and global sales network.

Group company Sun Chemical, operations of which are centered in North America and Europe, also continued to promote key strategic investments aimed at reinforcing its sales configuration in high-growth markets and regions. In July 2017, Sun Chemical acquired Joules Angstrom U.V. Printing Inks Corp., a specialized manufacturer of UV-curable printing inks, while in November it formed a joint venture with Alliance Holdings Company Ltd., combining its printing inks business on the Arabian Peninsula with the operations of Alliance Holdings' subsidiary Ink Products Company, Ltd., the region's top printing inks manufacturer in terms of market share. Sun Chemical's stake in the new company is 51%.



2 Collaboration with U.S. Firm Nanosys to Develop Inks for Inkjet-Printed QDCFs

DIC is currently working with Nanosys, Inc., of the United States, to develop inks for use in the production of inkjet-printed quantum dot color filters (QDCFs). Quantum dots (QDs) are light-emitting inorganic semiconductor nanoparticles. Because the color emitted can be controlled freely by changing dot size, QDs are garnering considerable attention as materials for next-generation displays.

Realizing mass commercialization for QDCFs presents two key challenges. The first is that fabrication costs for QDs are high, constituting a major hurdle to growth in demand and making it imperative for QDCF manufacturers to minimize production losses. The use of inkjet printing to place QDs is seen as an ideal solution that will make the low-cost production of QDCFs a reality. QDCFs facilitate the manufacture of LCDs and organic electroluminescence displays that are more power efficient and deliver a wider color gamut and viewing angle than existing units, underpinning hopes for their use in next-generation displays going forward.



Colloidal QD dispersions irradiated with a UV light

Employment Practices Based on the Incorporation of Diversity into Management

The DIC Group actively pursues diversity by employing a broad spectrum of individuals without regard to considerations such as gender, nationality, physical limitation or age. The Group works to foster a corporate culture that encourages understanding and respect for individual differences and actively draws on these differences to ensure an organization that is capable of responding promptly to rapid changes in the business environment and in customer needs.



Myron Petruch

General Manager, Pigments Product Division
President, Performance Pigments,
Sun Chemical Corporation

MESSAGE

Diversity at Work: The First Foreign National Appointed General Manager of a Product Division

With the aim of maximizing its outstanding human resources and deepening human interaction within the DIC Group, in 2018 DIC appointed a foreign national to the position of product division general manager for the first time in its history. Three of the Company's current executive officers are foreign nationals. Under its next medium-term management plan, DIC will aim to increase this number by 20%–30%, thereby creating a management framework that ensures responsiveness to global needs.

I am honored to have been appointed general manager of the Fine Chemicals Business Unit's Pigments Product Division. At Sun Chemical, I am currently president of Performance Pigments, but effective from January 1, 2018, I am serving concurrently as general manager of DIC's Pigments Product Division. I am the first foreign national to be named general manager of a product division. I recognize the tremendous responsibilities that come with this appointment and pledge to perform my duties to the very best of my ability.

My experience leading specialty chemicals businesses, especially in pigments, led me to join Sun Chemical in 2008. Since then, I have traveled extensively around the world to many DIC and Sun Chemical locations and to many of our global customers to help reinforce one of our operating foundations, which is that we are one of the top global names and leaders in organic pigments and specialty effect pigments used in a broad range of applications. My personal motto is "Think globally, but act locally." Accordingly, I will work to maintain both a broad overview to ensure an accurate grasp of global conditions and a narrow focus to ensure a thorough understanding of local needs with the goal of further sharpening the DIC Group's competitive edge.

Expanding Businesses that Will Drive Growth

In fiscal year 2017, shipments of pigments for color filters, pigments for cosmetics and special effect pigments and other functional pigments were up.

Pigments for Color Filters

The quality expectations of customers for the pigments that determine the performance of color filters are extraordinarily high. DIC's green pigments for color filters satisfy the rigorous standards of manufacturers of next-generation high-definition displays, delivering more lifelike colors. As a consequence, sales of these pigments continue to expand steadily. We are the world's largest manufacturer of these filters with a global market share of approximately 85%. Our share of the global market for blue pigments for this application also continues to rise, and we are in the process of expanding our global production capacity to 1.5 times the current level.

Pigments for Cosmetics

Owing to the strengthening of laws and regulations pertaining to color materials for cosmetics, we are seeing rising awareness of health and safety issues and an increasing preference for natural products. Against this backdrop, demand

for pigments for cosmetics is growing rapidly, particularly in Asian markets. The DIC Group's pigments for cosmetics comply with laws enforced by the U.S. FDA and its counterparts in other countries, as well as with the most rigorous standards for purity, giving us a key competitive advantage. We continue to capitalize on our position as the leading global manufacturer of pigments for cosmetics to drive technical innovation.

High-Performance Special Effect Pigments

Thanks to its lightness, as well as its excellent thermal and acoustic insulating properties, fire resistance and workability, autoclaved aerated concrete (AAC) is a building material that is expected to continue seeing demand growth. The production of high-performance aluminum pigments for AAC demands advanced technical capabilities. Aluminum pastes and powders manufactured by DIC Group company Benda-Lutz Corporation are used to ensure the stability of product quality for the world's top AAC products. By leveraging its industry-leading technologies to facilitate precise control of density, compression strength and thermoconductivity, the DIC Group has established itself as the leading global manufacturer of these pigments.



Pigments for color filters



Pigments for cosmetics



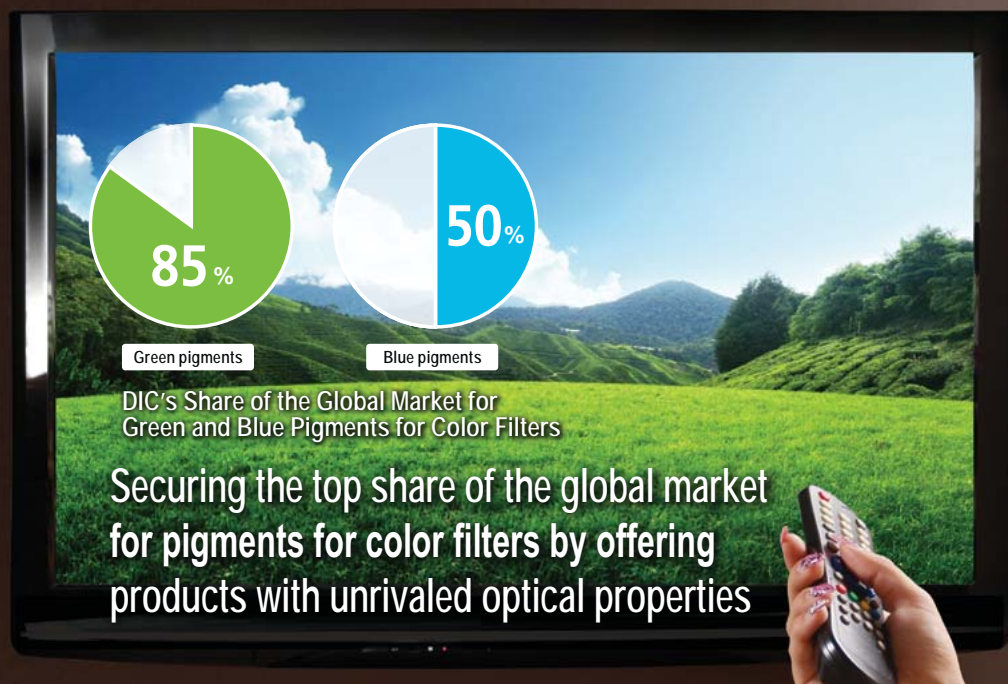
High-performance special effect pigments

The DIC Group is leveraging the power of chemistry to deliver color and comfort to people's lives.

Fine Chemicals

Pigments for Color Filters Used in LCDs
and OLED Displays (Functional Pigments)

SDGs Goals 7 and 13



Value Creation

Global market-leading pigments that deliver outstanding brightness and picture quality

Color images on LCDs used in televisions, computers and smartphones are produced using the three primary colors of light—red (R), green (G) and blue (B). These colors are created using pigments. LCDs produce images by transmitting light emitted from a backlight lamp through a color filter to which an RGB pattern has been applied. As a consequence, the pigments used in the color filter are crucial to picture quality.

With Japan's shift to digital terrestrial television driving up demand for flat-panel LCD televisions and the popularity of smartphones increasing, in 2007 DIC launched the G58 series of green pigments, which achieved a remarkable increase in brightness. The series includes *FASTOGEN GREEN A350*, a green pigment characterized by outstanding brightness and contrast that ensures excellent picture quality even with little light from the backlight. In fiscal year 2014, DIC developed the G59 series of green pigments for wide color gamut color filters, which deliver superior brightness and color reproduction, making them suitable for use in filters for next-generation high-definition displays, including those for ultra-high-definition (UHD) televisions. DIC currently enjoys an 85%-plus share of the global market for green pigments for color filters, making its products the de facto standard. DIC also manufactures blue pigments for color filters. In 2012, the Company developed the A series, which boasts a superb balance between brightness and contrast. The optical properties of pigments in this series have earned high marks from smartphone

manufacturers and boosted DIC's share of the global market for blue pigments to approximately 50%.

DIC's pigments for color filters, which satisfy the diverse performance requirements of displays used in LCD televisions, smartphones, tablets and notebook computers while at the same time adding value, have been adopted for use by many display manufacturers for use in color filters. In addition to improving picture quality, these pigments reduce energy consumption and, by extension, lower emissions of CO₂. Having positioned pigments for color filters as a business that it expects to drive growth, DIC continues working to reinforce its development and product supply capabilities.

Composition of an LCD and the Role of Pigments

Light emitted from the backlight is modulated by an LC shutter and colored as it passes through the color filter.





A
Distinctively
DIC
Response

Applying technologies amassed through the production of printing inks to the development and expansion of functional pigments that have become the de facto standard worldwide

DIC first succeeded in developing offset printing inks in-house in 1915 and 10 years later began production of organic pigments for its own use. Over subsequent years, the Company amassed development and design capabilities, as well as production technologies, crucial to the manufacture of fine chemicals and in 1973 commercialized revolutionary high-performance, long-lasting nematic LCs, which were adopted by Sharp Corporation for use in the world's first pocket calculator incorporating an LCD. DIC's passion and development prowess are also evident in its pigments for color filters.

Large-screen LCD televisions are expected to deliver superbly realistic and accurate color reproduction. The small LCDs used in smartphones and other devices must be clear, easy to read and bright enough to ensure legibility even with less light. This is because reduced light requirements results in longer battery life. Increasing brightness requires making color filters thinner and more transparent, but this alone will not deliver vivid colors and resolution. With the question of how best to realize both high brightness and vivid colors an ongoing challenge for display manufacturers, DIC has responded by developing innovative pigments for this application.

Copper has traditionally been the central material used in green pigments. In developing its green pigments for color filters, DIC defied conventional wisdom by exploring the use of a different central material with the goal of further enhancing performance characteristics. Through a process of trial and error, the Company narrowed down the list of suitable materials from a wide range of candidates, eventually choosing zinc. DIC also significantly improved transparency by reducing the size of pigment particles, thereby achieving a dramatic increase in contrast, which ensures a bright, clear picture quality even with less light. The outcome of these efforts was the groundbreaking G58 series.

In the area of blue pigments for color filters, DIC also leveraged its superior molecular design capabilities to achieve outstanding tinting strength and precise particle size control. To develop the A series of blue pigments for color filters, the Company also employed specialty particle surface processing to ensure highly stable dispersion, realizing an excellent balance between brightness and contrast. Products in the A series products currently dominate the market for blue pigments for color filters, delivering excellent optical properties that continue to earn solid marks from smartphone manufacturers.

DIC's success in developing a steady stream of pioneering functional pigments is supported by the seamless integration of basic technologies amassed in various fields as a manufacturer of color materials, the cross-business R&D configuration of its Central Research Laboratories and production technologies that facilitate the mass production of products with performance characteristics realized in the laboratory.



Picture quality is influenced significantly by the brightness and contrast of the pigment used in the color filter.
(Above: High brightness and high contrast; Below: Low brightness and low contrast)

Key People from DIC

We are making full use of the DIC Group's global network at all stages, from the promotion of product strategies through to the expansion of sales channels.

The value chain extending from functional pigments through to color filters for LCDs encompasses manufacturers of pigments, pigment dispersions, resist inks, color filters and LCDs. In developing pigments for color filters, we gather information on the latest trends from LCD manufacturers, which we apply to the formulation of next-generation product strategies.

Production of pigment dispersions, color filters and LCDs is concentrated primarily in East Asia. Recent years have seen a particularly sharp increase in the PRC, which is on the verge of overtaking the Republic of Korea (ROK) as No. 1 in terms of volume produced. We are making full use of the DIC Group's global network by working closely with local Group companies to bolster the adoption of DIC pigments for color filters for use in LCDs.

Fine Synthesis Technical Group 5, Fine Synthesis Technical Division 1, Central Research Laboratories **Keisuke Sakamoto** (left)

Manager, Pigments Sales Group 2, Pigments Product Division **Naoto Akiyama** (right)



Outstanding adhesion improves the reliability of LCDs and the safety of food products



Value Creation

Ultrathin (less than 1/10,000 millimeter) waterborne polyurethane resin adhesive primers

DIC's ultrathin high-performance films are used extensively for optical applications, including LCDs for televisions, computers and smartphones, and food product packaging applications, such as retortable pouches and snack food packets. While such films appear to be a single layer, they actually comprise multiple layers that are laminated together. The multilayer structure makes it possible to impart critical performance features, including transparency, electroconductivity, antireflectivity and brightness in the case of films for optical applications and heat resistance as well as oxygen-barrier properties and moisture resistance in the case of films for food packaging applications.

Film layers are generally laminated using adhesives. However, in situations where the surface attributes of polyethylene terephthalate (PET) film discourage adhesion, an adhesive primer (aqueous polyurethane surface modifier; also called an anchor coat or an adhesion promoter) is applied prior to the laminating adhesive. While less than 0.1 micron (1/10,000 millimeter) thick, DIC's new primers ensure a powerful bond between the PET film substrate and coating layer, thereby playing a key role in enhancing the properties of high-performance films.

DIC's popular *HYDRAN* resins: Reliable, easy-to-use and environment-friendly

Polyurethane resins are copolymers that boast excellent adhesion to a variety of substrates. Polymer design can be leveraged to impart various desired characteristics, facilitating a broad range of applications, including bonding fibers, films and metals. Waterborne polyurethane resins, in particular, deliver outstanding adhesion, while cross-linking agents can be used to enhance strength, adhesion and resistance to water, heat and moisture.

DIC has more than 40 years of experience as a manufacturer of polyurethane resins. One of its best-known products is the *HYDRAN* series of waterborne adhesive polyurethane resins, which are rated highly for increasing the adhesion, transparency, abrasion resistance and durability of substrate and

coating materials, and for enhancing the workability—including superb surface slip, windability and blocking resistance^{*1}—of *HYDRAN*-coated films.

Because they are solvent-free, *HYDRAN* resins also eliminate concerns regarding emissions of VOCs, making it an ideal choice from the perspectives of reducing the negative environmental impact of food packaging and protecting the safety and health of production workers. In addition, in the production of aluminum food trays, the use of aluminum vapor deposition^{*2} on *HYDRAN*-coated PET film uses significantly less energy than the conventional process, which involves laminating together layers of PET film and aluminum foil with an adhesive, and reduces tray weight.

^{*1} Blocking is the undesired adhesion of adjacent layers of film when winding. Blocking causes various issues, including hindering surface slip and preventing peeling off.

^{*2} Minute particles of aluminum are evaporated in a vacuum using, for example, an electron beam or high-frequency induction. The vaporized aluminum is deposited on the film substrate, where it condenses.

A Distinctively DIC Response

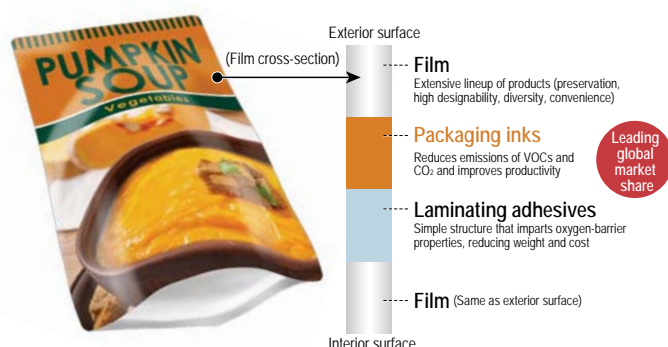
Maximizing top-class polymer technologies and an extensive global network to establish a strong brand image and a proven track record as a supplier

Building on its pigment and resin dispersion and formulating technologies realized through the production of printing inks, DIC is promoting the development of high-value-added products that leverage its basic and core technologies. The former category includes technologies in the area of optics and color, organic molecular design, polymer design and dispersion technologies, while the latter includes those in the area of synthesis, compounding formulation and surface treatment. DIC's efforts in this area are underpinned by its ability to integrate technological

resources originating across the DIC Group to combine materials with diverse properties and performance characteristics.

DIC's success in commercializing waterborne polyurethane resin adhesive primers for optical and food packaging applications is attributable to its know-how in peripheral areas such as high-performance films, coatings and adhesives. The Company makes use of its vast store of development and production know-how to realize distinctively DIC responses to market needs.

A Wealth of Technologies in Areas Peripheral to Primers



Packaging

An expanding global market



Promoting business diversification through information gathering and global marketing

Polymers is one of five business segments into which the DIC Group classifies its global operations. The remaining four are Printing Inks, Fine Chemicals, Compounds and Application Materials. These four segments overlap with the Polymers segment not only on the technology front but also because they frequently manufacture and sell products for common applications and operate in the same geographic markets. As a consequence, all five segments inevitably share customers and suppliers. The Group's adhesive primer business thus works with Group companies in each country and territory, enabling it to efficiently gather information on markets and customers and to modify its sales strategies accordingly.

Because primers are intermediate materials, the handling methods and coating technologies employed in their use impact the quality of finished products. Accordingly, DIC recognizes the importance of a sales approach that encompasses consulting on everything from formulation to process management. Here, too, DIC thus capitalizes on its extensive experience to provide tailored production support, as well as to sell products, to film manufacturers and other customers. This approach has earned the Company a solid reputation for reliability.

Key People from DIC

Having inherited DIC's DNA, we are promoting the development of businesses that respond to social imperatives.

While potential applications for adhesive primers are numerous, we have narrowed our focus to optical and food packaging films. We have succeeded in expanding our shares of both markets by promoting the development of formulations and products that comply with the selection criteria and required performance characteristics of leading customers in each of the countries and territories in which we operate.

At all stages, we find ourselves impressed by our wealth of technological and human resources, as well as by our meticulously crafted global network, which is attributable to the fact that we were early to turn our attention to overseas markets. Our ability to effectively combine such assets results in a dynamic force that I liken to a chemical reaction. These assets, amassed over 100 years in business, are the building blocks of DIC's DNA. They are also the driving force behind our efforts to develop products and global businesses that respond accurately to rapidly evolving social imperatives.

(From left) Manager, Dispersion Sales Group, Polymers Product Division **Kenji Ikeda**

Dispersion Sales Group, Polymers Product Division **Daisuke Nagaoka**

DIC (Shanghai) Co., Ltd. **Sou Kanegae**

Polymer Technical Group 2, Polymer Technical Division 2 **Kazuhiko Chiyonobu**

General Manager, Dispersion Sales Group, Polymers Product Division **Nobuya Matsumoto**





Efforts to Reduce Environmental Impact by Using Water-Based Biomass Ink Made with Plant-Based Packaging Resin

Sun Chemical Promotes Initiatives Aimed at Addressing an Important Social Imperative

Sun Chemical, which oversees the DIC Group's operations in Europe and the Americas, is one of the world's leading manufacturers of printing inks. The company develops and supplies a broad range of products that address diverse social imperatives.

Social Imperative

Brands today are under a lot of pressure to be environment-friendly. Studies have shown that consumers want more sustainable packaging and global retailers have made it clear that they prefer to work with brands that integrate environment-friendly practices in their packaging.

Recognizing these trends, brands are taking dedicated steps to vet and study the environmental practices implemented by their suppliers and partners. In fact, some brands in the fast/quick food service industry have gone so far as to push forward initiatives that focus on using all-natural packaging.

This has led to a push for greener inks with a higher level of bio-renewable content. A bio-renewable ink can be derived from tree, plant, insect and/or animal materials, according to the U.S.-based National Association of Printing Ink Manufacturers (NAPIM). These can include resins, gums, oils, waxes, solvents, and other polymer building blocks.

Brand owners want these bio-renewable inks to maintain the same quality and performance requirements of a non-renewable ink, keep to a cost that is competitive with non-renewable inks and comply with the standards outlined by the brand and a variety of regulations, including California's Proposition 65 and the European Union's Toy Safety Directive, among others.

Sun Chemical's Response

Sun Chemical has responded to the industry challenges by rolling out a line of inks that meet environment-friendly, bio-renewable and biodegradable standards that the industry, brand owners, retailers and consumers are looking for.

Formulated with significantly higher levels of bio-renewable resin content compared to other previous market offerings from Sun Chemical, the new *SunVisto® AquaGreen* water-based inks deliver the required critical performance attributes needed across a range of paper packaging applications.

The inks can be blendable using varnishes and standard water-based pigment dispersions, and do not compromise end-use or on-press performance. They also offer outstanding print fidelity and ink resolubility on press, quick setting for in-line converting and high levels of resistance properties to rub, abrasion, water and grease.

Sun Chemical's R&D and compliance teams from Europe, North America and South America spent a year and a half replacing chemicals with natural products to ultimately provide an ink solution that was comparable in cost, delivered the required performance attributes and met all the standards and regulatory compliance requirements.



from the DIC Group

VOICE

Sun Chemical is fulfilling its responsibilities to ensure sustainable business practices.

Sun Chemical is a recognized leader in compliance and R&D, with a strong commitment to sustainable practices. Those attributes were why a customer in North America approached us with a project to see if we could create a series of natural bio-renewable inks that would meet the sustainability needs and standards of major fast/quick food service brands. It was a major undertaking with a lot of testing and trial runs. It was inspiring to see our team's determination to find the right raw materials needed to accomplish the goals and requirements of our customer and global regulations.



Vice President, Marketing
Penny Holland

Basic Approach to Corporate Governance

The DIC Group identifies the purpose of corporate governance as being 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 on the part of 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.

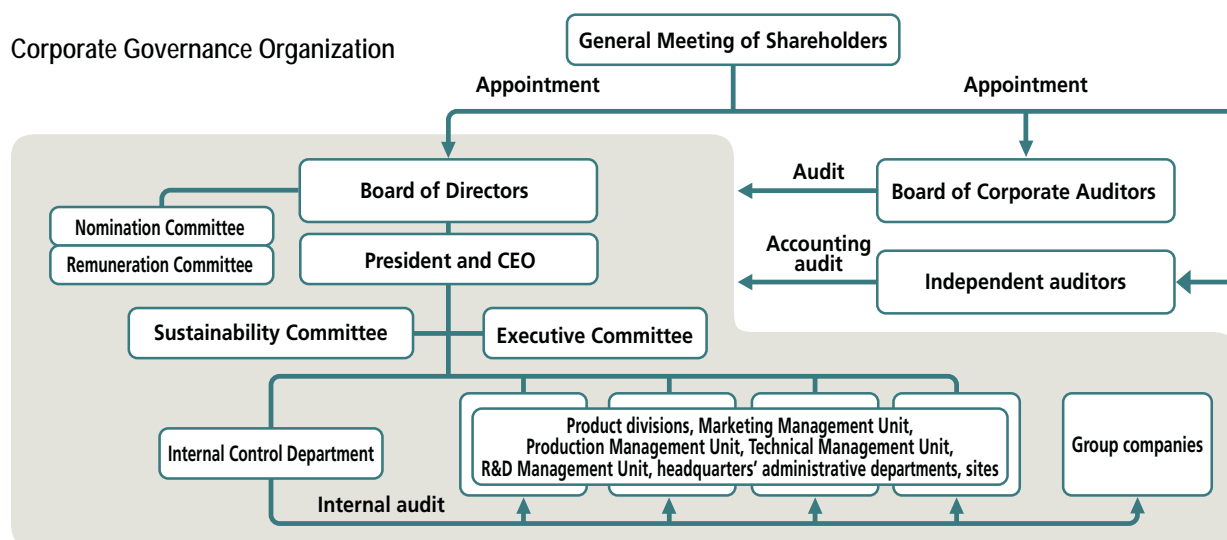
Policy on Corporate Governance

DIC has prepared a Policy on Corporate Governance, which it has published on its corporate website.

Policy on Corporate Governance  http://www.dic-global.com/en/about/pdf/governance_en.pdf

Corporate Governance Organization

A company with internal auditors, DIC maintains a Board of Directors and a Board of Corporate Auditors. DIC has also instituted an executive officer system and has established a Nomination Committee, a Remuneration Committee, an Executive Committee and a Sustainability Committee.



1 Board of Directors

To accelerate decision making and reinforce corporate governance, nine directors have been elected to the Board of Directors. Of the nine, three are outside directors. In principle, the Board meets once monthly. The Board of Directors is responsible for making decisions on matters stipulated in the Companies Act of Japan, and in DIC's own regulations, as requiring Board-level approval, as well as for monitoring the execution of business activities, as reported by the executive officers.

2 Nomination Committee

The Nomination Committee was established as an internal committee of the Board of Directors with the aim of ensuring objectivity in the nomination of candidates for the position of director, corporate auditor or executive officer and the dismissal of serving directors, corporate auditors and executive officers. The committee, which submits proposals to the Board of Directors, meets as necessary. At present, three of the committee's five members are outside, while the position of committee chairman is filled by an outside director.

3 Remuneration Committee

The Remuneration Committee was established as an internal committee of the Board of Directors with the aim of enhancing the objectivity of procedures for determining executives' remuneration. The committee, which has been entrusted with responsibility for determining the salaries and bonuses of directors and executive officers, meets as necessary. At present, three of the committee's five members are outside, while the position of committee chairman is filled by an outside director.

4 Executive Committee

The Executive Committee deliberates and resolves issues related to the execution of business activities. In principle, the committee meets twice monthly. Committee members are directors and executive officers designated by the Board of Directors. Meetings are also attended by one corporate auditor as part of the auditing process. Details of deliberations and resolutions 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 initiatives. Committee members are directors and executive officers designated by the Board of Directors. As part of audit activities, one corporate auditor also attends Sustainability Committee meetings. The committee reports the matters upon which it deliberates and the results of its deliberations to the Board of Directors.

6 Board of Corporate Auditors

The Board of Corporate Auditors comprises four members, including two outside corporate auditors. In principle, the Board of Corporate Auditors meets once monthly. Board activities include debating and determining auditing policies and auditing plans. Board members also report on the results of audits conducted.

7 Internal Auditing Department

The internal auditing department is charged with internal auditing, which includes monitoring the effectiveness of internal controls at DIC and domestic DIC Group companies. For DIC Group companies in Asia, Oceania, the PRC, the Americas and Europe, internal auditing is the responsibility of local internal auditing teams.

8 Accounting Auditors

DIC has engaged Deloitte Touche Tohmatsu LLC as its independent auditors. DIC strives to ensure an environment that facilitates the accurate disclosure of information and fair auditing.

Rationale Behind Current Corporate Governance Organization

DIC has instituted an executive officer system, a move aimed at separating decision making and implementation and thereby accelerating business execution and clarifying responsibilities. As well as appointing three highly independent outside individuals to its Board of Directors, the Company has taken steps to reinforce its monitoring of business execution. DIC also has a Nomination Committee and a Remuneration Committee, which include the three outside directors, to ensure objectivity in the nomination of, and in determining remuneration for, directors and executive officers. The four-member Board of Corporate Auditors, which includes one attorney and one university professor as outside corporate auditors, liaises with the accounting auditors and the internal auditing department. This structure ensures the effective functioning of DIC's corporate governance system.

System of Internal Controls

1 Status of the System of Internal Controls

The DIC Group maintains a keen awareness of four key objectives, which are to ensure the effectiveness and efficiency of its businesses, uphold the reliability of its financial reporting, comply with laws and regulations relevant to its business activities, and safeguard its assets. To this end, DIC has prepared and operates a system of internal controls to ensure proper business activities, based upon the Companies Act of Japan and the Financial Instruments and Exchange Act of Japan. The Board of Directors hears annual reports on measures on the status of the system of internal controls, a summary of which is included in the Company's report on its business activities.

2 Basic Policy Toward Eliminating Demands by Antisocial Elements

DIC's basic policy, as outlined in the DIC Group Code of Business Conduct, is to stand firmly against antisocial elements and in no way to acquiesce to demands presented by such elements.

Outside Directors and Outside Corporate Auditors

1 Number and Role of Outside Directors and Outside Corporate Auditors

DIC currently has three outside directors and two outside corporate auditors. The three outside directors have extensive experience in and knowledge of corporate management, which they are able to leverage in the performance of their duties as outside directors of DIC. In addition to attending meetings of the Board of Directors, the outside directors serve as members of the Nomination Committee and the Remuneration Committee, enabling them to provide supervision with an independent point of view, thereby helping to reinforce DIC's corporate governance. The two outside corporate auditors—one an attorney specializing in corporate law and the other an academic expert in the field of accounting whose specialties are financial accounting and corporate management—advise management of the DIC Group from an expert, multifaceted and independent perspective, thereby helping to reinforce the auditing function.

2 Standards Used to Evaluate the Independence of Outside Directors and Outside Corporate Auditors

DIC has established standards for evaluating the independence of individuals appointed to the position of outside director or outside corporate auditor. DIC's outside directors and outside corporate auditors are individuals who, based on these standards, are unlikely to have conflicts of interests with ordinary shareholders and who comply with criteria for the independence of directors/auditors set by the Tokyo Stock Exchange.

3 Framework for Supporting the Efforts of Outside Directors and Outside Corporate Auditors

Prior to meetings of the Board of Directors, relevant materials are distributed to all directors, full-time auditors, outside directors and outside corporate auditors. In addition, directors bringing matters before the Board provide explanations in advance to outside directors, while full-time corporate auditors provide explanations as necessary to outside corporate auditors.

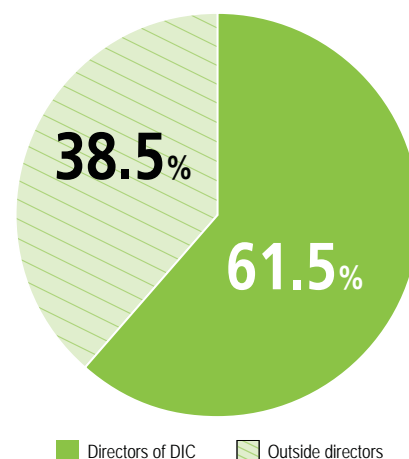
| Other Initiatives to Enhance the Corporate Governance Organization

1 Composition of the Board of Directors

To enable the Board of Directors to resolve major operations-related issues, as well as to facilitate the effective oversight of management, the Board of Directors comprises outside directors, who maintain independence, and other individuals having a thorough knowledge of the businesses of the DIC Group, with consideration given to ensuring a balance among necessary knowledge, experience and capabilities. In light of the DIC Group's global operations, DIC also strives to ensure diversity in the Board's composition.

One member of the Board of Directors is female, as is one member of the Board of the Corporate Auditors.

Composition of the Board of Directors



Composition of the Board of Directors and the Board of Corporate Auditors

	In-house	Outside	Total	Percentage of outside members
Directors	6	3	9	33.3%
Corporate auditors	2	2	4	50.0%
Total	8	5	13	38.5%

2 Remuneration for Executives

Remuneration for directors is determined by the Remuneration Committee, which takes into account prevailing market rates, and consists of basic remuneration; bonuses, which are linked to consolidated operating results and the degree of achievement of individual targets; and stock compensation, which is based on medium- to long-term operating results. Directors who serve concurrently as executive officers are eligible for bonuses and stock compensation. Other directors and outside directors are eligible for basic remuneration only. Remuneration for corporate auditors consists of basic remuneration only and is determined through discussion involving all corporate auditors, in accordance with internal rules established by the Board of Corporate Auditors, with consideration given to ensuring a balance with remuneration for directors and to prevailing market rates.

3 Evaluation of the Board of Directors' Effectiveness

DIC conducts an analysis and evaluation of the effectiveness of the Board of Directors annually via a self-evaluation conducted by the directors and corporate auditors. In fiscal year 2017, the Company conducted a survey of all directors and corporate auditors regarding, among others, self-evaluation and Board administration, responses to which were analyzed and evaluated by the Board of Directors. As a result, the effectiveness of the Board of Directors was confirmed.

DIC recognizes enhancing debate regarding the direction of corporate strategies and promoting deeper deliberations in the Nomination Committee and Remuneration Committee, among others, as key challenges and will continue working to promote improvements.

| Leveraging its Position as a Global Manufacturer of Fine Chemicals to Support the UNGC

Seeking to fulfill its responsibilities as a member of the international community in a more proactive manner, in December 2010 the DIC Group pledged its support for the 10 principles put forth by the United Nations (UN) and became a signatory to the United Nations Global Compact (UNGC).

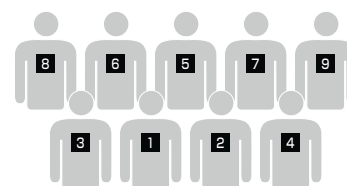
Inaugurated in 2000, the UNGC is a voluntary initiative for companies that seek to achieve global sustainable development. Companies and organizations worldwide have pledged their support for the UNGC in the belief that global sustainable development is possible if companies align their business practices with, and fulfill their social responsibilities in, 10 globally accepted principles in the areas of human rights, labor, the environment and the prevention of corruption.



Directors



- | | | | | |
|--|--|---------------------------------------|---------------------------------------|---------------------------------------|
| 1 Chairman of the Board of Directors
Yoshiyuki Nakanishi | 3 Representative Director
Masayuki Saito | 5 Director
Hideo Ishii | 7 Director*
Yukako Uchinaga | 9 Director*
Yoshiaki Tamura |
| 2 President and CEO
Kaoru Ino | 4 Director
Yoshihisa Kawamura | 6 Director
Toshifumi Tamaki | 8 Director*
Kazuo Tsukahara | * Outside |



Corporate Auditors



- | |
|--|
| 1 Corporate Auditor
Jiro Mizutani |
| 2 Corporate Auditor
Yoshiyuki Mase |
| 3 Corporate Auditor*
Katsunori Takechi |
| 4 Corporate Auditor*
Cindy Yoshiko Shirata |

* Outside



Outside Director Profiles

Yukako Uchinaga

April 2004 Director and Senior Executive Officer, IBM Japan, Ltd.
October 2009 Director and Executive Vice President, Benesse Holdings, Inc.
April 2013 Honorary Chairman, Berlitz Corporation

Kazuo Tsukahara

April 2008 Director and Managing Executive Officer, IHI Corporation
April 2012 Representative Director and Executive Vice President, IHI Corporation
June 2014 Adviser, IHI Corporation

Yoshiaki Tamura

January 2007 Executive Officer, Asahi Glass Co., Ltd.
March 2013 Representative Director and Executive Vice President, Asahi Glass Co., Ltd.
March 2017 Executive Fellow, Asahi Glass Co., Ltd.

Outside Corporate Auditor Profiles

Katsunori Takechi

April 2000 Public Prosecutor, Civil Affairs Bureau, Ministry of Justice
October 2003 Joins Anderson Mōri & Tomotsune
July 2011 Managing Partner, Takechi & Partners

Cindy Yoshiko Shirata

April 2002 Professor, Nihon University College of Economics
February 2010 Visiting Professor, University of Munich
October 2014 Professor, Faculty of Business Administration, Bunkyo University

Executive Officers



President and CEO
Kaoru Ino



Executive Vice President
Masayuki Saito
Representative Director
Assistant to President and CEO
CFO
Chairman of the Board, Sun Chemical Corporation
Chairman of the Supervisory Board, Sun Chemical Group Cooperatief U.A.



Managing Executive Officer
Toshio Hasumi
President, Polymers Business Unit
General Manager, Polymers Product Div.



Managing Executive Officer
Kazunari Sakai
Technical Segment (Technical Management Unit and R&D Management Unit)
General Manager, Technical Management Unit



Managing Executive Officer
Hideo Ishii
President, Printing Inks Business Unit
General Manager, Printing Inks Product Div. and Printing Inks Production Div.



Managing Executive Officer
Masami Hatao
General Manager, Marketing Management Unit



Managing Executive Officer
Toshifumi Tamaki
Head of Corporate Strategy Unit
In charge of Kawamura Memorial DIC Museum of Art
Chairman, DIC (China) Co., Ltd.



Managing Executive Officer
Naoyoshi Furuta
General Manager, Production Management Unit



Managing Executive Officer
Masaya Nakafuji
Head of General Affairs and Legal Unit and ESG Unit
Diversity



Managing Executive Officer
Kazuo Hatakenaka
President, Fine Chemicals Business Unit
General Manager, Liquid Crystal Materials Product Div.



Executive Officer
Rudi Lenz
President and CEO,
Sun Chemical Corporation



Executive Officer
Koji Tanigami
President and CEO, DIC Graphics Corporation
Deputy General Manager, Printing Inks Product Div.



Executive Officer
Shinsuke Toshima
President, Application Materials Business Unit
General Manager, Application Materials Product Div.



Executive Officer
Taihei Mukose
Head of Purchasing and Logistics & Information Systems Unit



Executive Officer
Kiyotaka Kawashima
General Manager, R&D Management Unit and Central Research Laboratories



Executive Officer
Masanobu Mizukoshi
President, Compounds Business Unit
General Manager, Liquid Compounds Product Div. and Solid Compounds Product Div.



Executive Officer
Hiroyuki Ninomiya
Head of Finance and Accounting Unit



Executive Officer
Paul Koek
Managing Director, DIC Asia Pacific Pte Ltd



Executive Officer
Myron Petruch
General Manager, Pigments Product Div.
President, Performance Pigments,
Sun Chemical Corporation



Executive Officer
Takeshi Asai
General Manager, Corporate Planning Dept.
Osaka Branch and Nagoya Branch

Amid rising environmental concerns, including climate change, and increasingly urgent social imperatives, companies today face an ever-more diverse array of challenges. In line with its basic sustainability policy, the DIC Group promotes a variety of sustainability initiatives worldwide and works to maintain an accurate grasp of social imperatives pertaining to ESG-related issues.

Themes	DIC Sustainability Themes	Relevant UN Sustainable Development Goal (SDG) Icons
Themes that demonstrate unique capabilities (A)	Business models that respond to social imperatives..... P49	   SDGs Goals 8, 9 and 11
	New technology development and value creation..... P50	  SDGs Goals 9 and 12
	Harmony with the community and social contributionsP51	  SDGs Goals 3 and 4
	Communication with stakeholders P52	
Core and category-specific themes (Themes that combine elements of (A) and (B))	Environment, safety and health..... P39	       SDGs Goals 3, 6, 7, 12, 13, 14 and 15
	Quality..... P44	
	Human resources management..... P45	     SDGs Goals 3, 4, 5, 8 and 10
	Sustainable procurement P48	 SDGs Goal 12
Basic themes (B)	Compliance..... P37	 SDGs Goal 16
	Risk management P37	
	Information security..... P38	

SUSTAINABLE DEVELOPMENT GOALS

17 GOALS TO TRANSFORM OUR WORLD



The 2030 Agenda for Sustainable Development

At the UN Sustainable Development Summit in September 2015, a proposal titled “Transforming our world: the 2030 Agenda for Sustainable Development,” later summarized as the Sustainable Development Goals (SDGs), was adopted with the participation of more than 150 UN member states. The agenda, which succeeded the Millennium Development Goals (MDGs), encompasses 17 goals and 169 targets. All UN member states are expected to mobilize efforts to attain the 17 goals, essential to sustainable development for the planet, by 2030. The DIC Group pledges to contribute through its business activities to the success of the SDGs.

For more information on the SDGs, please see: [WEB http://www.un.org/sustainabledevelopment/sustainable-development-goals/](http://www.un.org/sustainabledevelopment/sustainable-development-goals/)

Sustainability

Basic Sustainability Policy (Formulated in January 2014)

The DIC Group is dedicated to conducting its business while retaining a strong commitment to five key concepts: preserving safety and health, ensuring fair business practices and respect for diversity and human rights, maintaining harmony with the environment and advancing its protection, managing risks, and creating value for society through innovation. DIC Group employees will continue working to deliver the value that its stakeholders—including its customers, suppliers, local communities, shareholders and investors, and employees—expect, showing ingenuity and a sense of responsibility. The Group itself will strive to remain an organization that contributes to sustainability for society and the global environment by capitalizing on its businesses to achieve unfaltering growth, thereby enhancing its own sustainability.

Sustainability Framework and Themes

The DIC Group’s sustainability framework comprises 11 key themes, which are categorized as basic themes, themes that demonstrate unique capabilities and themes that combine elements of the previous two classifications. The Group implements a broad range of global initiatives that take into account its responsibility to ensure proper product stewardship, as well as its position as a leading manufacturer of fine chemicals.

In line with its basic sustainability policy, the DIC Group has formulated medium-term (fiscal years 2016–2018) targets and creates annual activity plans for each of these themes. The Group makes use of the plan–do–check–act (PDCA) cycle in promoting initiatives and reports on its achievements annually in the DIC Report.

System for Promoting Sustainability Initiatives

The DIC Group’s system for promoting sustainability initiatives centers on the Sustainability Committee, which answers directly to the president and CEO. The committee is tasked with reporting on the status of sustainability themes, as well as with proposing policies and programs for advancing sustainability and deliberating on critical related matters. Effective from fiscal year 2018, DIC established the ESG Unit with the aim of promoting the further global expansion of its ESG-related initiatives.



Towards Fair and Transparent Corporate Activities



SDGs Goal 16

The DIC Group Code of Business Conduct

The DIC Group completed the DIC Group Code of Business Conduct in July 2014. The code not only mandates compliance with national laws and international rules but also presents 10 principles essential to the professional conduct of DIC Group employees. The DIC Group Code of Business Conduct has since been translated into 25 different languages to ensure that DIC Group employees worldwide share the Group's values and commit themselves to doing what is right, as well as to acting with common sense and an understanding of individual responsibilities, in all aspects of their work.

DIC Group Code of Business Conduct http://www.dic-global.com/en/csr/pdf/code_of_business_conduct_en.pdf

Initiatives to Promote Compliance

In addition to the DIC Group Code of Business Conduct, the Group promotes compliance through the following initiatives:

- 1 Training focused on legal issues to improve compliance awareness is provided for employees at point of hire, when promoted and before overseas transfers. In addition, with the aim of promoting awareness of the DIC Group Code of Business Conduct, in fiscal year 2017 e-learning on the prevention of bribery and corruption was provided in Japan, the Asia-Pacific region and Greater China. Participation in all three regions averaged 91%-plus of eligible employees.
- 2 Compliance officers are appointed at all regional headquarters—DIC (Japan), Sun Chemical (the Americas and Europe), DIC (China) (the PRC), and DIC Asia Pacific (Asia and Oceania)—to spearhead global compliance efforts.

The DIC Group vows that it will not violate the principles of the DIC Group Code of Business Conduct, even if such a violation would appear to profit the Group. As a corporate citizen, the Group also pledges to respect social norms and act in a sound and socially acceptable manner. In fiscal year 2017, there were no serious violations of compliance laws.

Establishing and Operating a Whistle-Blowing System

The DIC Group has established a whistle-blowing system through which one can directly report an issue or question regarding compliance to the division responsible for compliance. Since fiscal year 2014, the Group has maintained whistle-blowing hotlines that can handle reports in the languages of more than 160 countries. The Group has also devised strict rules under this system to protect whistle-blowers from retaliation, and is working to ensure the system functions in a proper manner.

Taxation Compliance

In November 2017, the DIC Group formulated an official approach to tax. As an organization with global operations, the Group engages in fair and appropriate tax planning that reflects the nature of its businesses. The Group is also aware of risks associated with transfer price taxation and the use of tax havens and of its obligation to pay appropriate taxes in the proper jurisdictions as appropriate for its operations.

The DIC Group's Approach to Tax <http://www.dic-global.com/en/csr/philosophy/management/tax.html>

Risk Management



Reducing Business Risks and Preventing the Recurrence of Incidents

Risk Management Policy

To date, the DIC Group's Risk Management Subcommittee has focused on establishing a risk management policy and a risk management system, efforts that are designed to further enhance corporate value Groupwide. In a bid to ensure the effective and sustainable implementation of initiatives, in January 2015 the Group introduced a newly formulated risk management policy.

Risk Management Policy <http://www.dic-global.com/en/csr/philosophy/management/bcm.html>

Risk Management System

In the process of formulating the risk management policy, the Risk Management Subcommittee has established the DIC Group risk management system. This system begins with the distribution to directors of survey questionnaires regarding risks with the potential to interrupt the Group's businesses. Based on survey results, the subcommittee determines priority risks. Risk management plans are produced and risk response measures implemented, assessed, improved and reviewed by executives, thereby completing the PDCA cycle, with the aim of facilitating ongoing risk reduction.

Progress of Response Measures as of the End of Fiscal Year 2017

In fiscal year 2017, DIC incorporated materiality into the risk identification process. As a result, the Company identified seven new priority risks to be addressed during the period. Measures implemented were judged to have been completed for three of these risks, which were redesignated "routine." The Company is currently taking decisive steps to address the remaining four.

Priority risk	Progress
<ul style="list-style-type: none"> Ability to foster global human resources Global technology development capabilities Business continuity management (BCM) 	Completed (Redesignated "routine")
<ul style="list-style-type: none"> Creation of next-generation businesses Management of chemical substances Optimization of global production configuration Governance at subsidiaries 	Ongoing

BCM in Fiscal Year 2017

Initiatives in fiscal year 2017 focused on encouraging awareness among and providing training for all product division and Group production site BCP officers in Japan. To ensure that BCP officers share the same understanding of business risks and reinforce recognition of the need to address business continuity as an inherent aspect of everyday operations by encouraging the formulation of highly effective methods for countering various hypothetical crises—thereby enabling DIC to leverage limited resources to secure supply chains and restore sites to operability in the aftermath of a major disaster—the Group conducted visiting BCP lectures at 20 domestic sites. Participating product division general managers and general managers/group leaders from production sites exchanged views on issues and solutions.

Initiatives to Strengthen Governance at Subsidiaries

The DIC Group comprises 171 companies in 64 countries and territories. Two-thirds of the Group's employees are located at, and 60% of its consolidated net sales are generated by, bases outside of Japan. To date, DIC has worked continuously to reinforce subsidiaries' compliance and governance frameworks. In fiscal year 2016, DIC outlined four key themes to guide these efforts: (1) Enhance the visibility of Group governance systems; (2) Ensure appropriate behavior by subsidiaries' boards of directors; (3) Ensure appropriate behavior by subsidiaries' executives; and (4) Implement measures that help subsidiaries ensure rational front-line operations.

Information Security

<http://www.dic-global.com/en/csr/philosophy/management/security.html>

WEB



Initiatives to Ensure Information Security

Globally Maintaining and Enhancing Information Security

Initiatives in Japan

DIC has continuously taken steps to fortify its system for responding to targeted cyber attacks and other critical risks to its information security. In fiscal year 2017, the Company also took steps to update its information security policy and rules to accommodate the Internet of Things (IoT), the integration of information and operational systems and the expansion of cloud computing and other new technologies. DIC also invited a third-party organization to assess its information security initiatives, which served to illuminate issues requiring attention from an expert, objective and multifaceted perspective, and has begun taking steps to address these issues in order of priority.

Initiatives in the Asia-Pacific Region and in Greater China

In fiscal year 2017, the DIC Group formulated information and communications technology (ICT) usage and management guidelines for the Asia-Pacific region and for Greater China. By promoting the deployment and firm establishment of these rules, the Group will continue working to reinforce the information security measures of DIC Group companies in these regions.

Initiatives in the Americas and Europe

Having recognized information security as a challenge of vital importance, the Sun Chemical Group, which oversees operations in the Americas and Europe, works to ensure business continuity and mitigate risks to its information systems and the confidentiality, integrity and accessibility of its data. The Sun Chemical Group also promotes continuous, systematic efforts, based on ISO 27001, designed to reinforce its information security countermeasures, thereby ensuring that it earns and maintains the trust of its stakeholders.



At Sun Chemical, we see firsthand the increase and complexity of cyber threats on a daily basis and understand the potential impacts on business. To ensure business continuity, we are focused on protecting our systems and data assets through people, process and technology. Our information security program's foundation is based on the globally recognized ISO 27001 information security framework, and our strategy entails a multilayer security approach and continuous improvements based on threat intelligence and incident response. We have invested in diversified technologies such as data loss prevention solutions, the latest anti-virus software, network security solutions and so on. In addition to technology investments, we are focusing efforts on establishing a global user security awareness program to build a security-minded culture within Sun Chemical by training users how to protect themselves and the organization from cyber threats.



Sun Chemical

(From left) Manager, Infrastructure **Chimdi Ifeakanwa**
Specialist, Security Infrastructure **Larry Withrow**
Global Process Lead **Ryan Vasquez**



Toward the Achievement of a Sustainable Society

SDGs Goals 3, 6, 7, 12, 13, 14 and 15



Promoting Responsible Care

Initiatives in Fiscal Year 2017

In fiscal year 2017, the DIC Group advanced diverse initiatives in line with its annual Responsible Care activity plans. Overseas, executives from Group companies and site general managers in the PRC and the Asia-Pacific region, executives in charge and Responsible Care officers, among others, hold annual ESH and energy conservation conferences. In a new undertaking, in February 2017 a trilateral Japan-Asia-Pacific-Greater China Conference was held at DIC's corporate headquarters. In addition to discussing expanding and enhancing targets and date management, conference participants toured production facilities in Japan that are currently promoting advance initiatives. On another front, Responsible Care officers used the SharePoint intranet platform to share data and conference materials, among others.

ESH Auditing

Audits in Fiscal Year 2017

In Japan, the DIC Group conducts ESH audits at consolidated DIC Group companies, verifying the results thereof and proposing remedial measures. In fiscal year 2017, such audits were conducted at nine principal DIC sites and four DIC Graphics' sites, as well as at 13 sites belonging to nine other domestic Group companies. Similar efforts are also promoted overseas. Every year, audit personnel also visit sites in Greater China, the ROK and the Asia-Pacific region to determine the status of management systems and follow up on ESH initiatives.

Outline of ESH Audits Implemented (Fiscal Year 2017)



Occupational Safety and Health and Disaster Prevention

Principal Initiatives in Fiscal Year 2017

1 Reducing Risks

By understanding potential risks in production processes, facilities and devices, and the hazards of chemical substances, the DIC Group systematically prepares initiatives to prevent accidents and occupational injuries. In Japan, the Group also conducts risk assessments when deploying new or modified equipment or changing production processes and, since fiscal year 2015, has sought to reduce risks associated with chemical substances.

2 Training Skilled Safety Personnel to Predict Risks

To foster skilled safety personnel, the DIC Group provides regular safety education and training on how to handle chemical substances, using materials such as *Principles of Safe Conduct*, safety data sheets (SDSs) and its Occupational Accident Case Studies database. In recent years, the Group has focused especially on a technique called Kiken Yochi Training (KYT) ("hazard prediction training") and on hands-on safety training.

3 Promoting Hands-On Safety Training

The DIC Group's full-fledged hands-on safety training program began with the introduction of a mobile initiative using equipment transported from site to site. Since fiscal year 2013, the Group has installed permanent training equipment in Japan (six sites), the PRC (three sites), Taiwan, Malaysia and Indonesia. Over the past few years, these and other initiatives have helped to almost halve the frequency rate of occupational accidents resulting in workdays lost at DIC Group sites in Japan.

Status of Occupational Accidents

The DIC Group promotes a variety of initiatives aimed at eliminating occupational accidents. In fiscal year 2017, the number of occupational accidents resulting in workdays lost across the DIC Group was down from the fiscal year 2016 level. Looking ahead, the Group will continue working to analyze the causes of occupational accidents resulting in workdays lost that have occurred to date and to reflect its findings in concrete improvements with the goal of preventing the occurrence of such accidents in the future.

Workdays Lost Due to Occupational Accidents (FY2015-2017)

	DIC			DIC Group (Japan)			DIC Group (Global)		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Number of workdays lost	1	3	2	5	5	3	88	71	70
Frequency rate	0.181	0.541	0.360	0.556	0.548	0.331	2.375	1.893	1.752
Severity rate	0.005	0.012	0.054	0.018	0.026	0.028	-	-	-
TRIR*	1.27	2.35	2.16	2.11	3.07	2.65	4.32	3.84	3.98

* Total recordable injury rate (TRIR): Number of occupational accidents resulting in lost workdays + Number of occupational accidents not resulting in lost workdays / Million work hours

Preventing Global Warming

Framework for Promotion

DIC and DIC Group companies in Japan have established Energy-Saving Promotion committees at each production and R&D sites. Committee activities include confirming the progress of initiatives, engaging in discussions and conducting patrols. DIC has also set up energy-saving working groups comprising members chosen from each production facility that fosters the exchange of information, research pertaining to new items and the Groupwide implementation of effective measures.

DIC Group companies overseas promote a wide range of independent energy-saving initiatives that align with the Group's policy. These efforts are supported by the Production Management Department. Critical initiatives are debated and the progress thereof is reported on by the Sustainability Committee, which answers directly to the president and CEO.

Principal Initiatives in Fiscal Year 2017

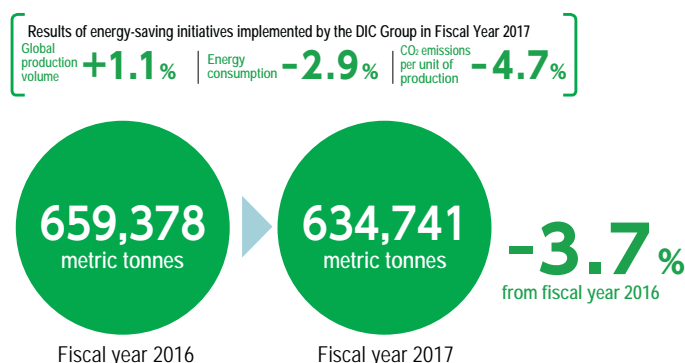
1 Setting a Medium-Term Target for the Reduction of CO₂ Emissions

In October 2016, the Sustainability Committee set a medium-term target for reducing the DIC Group's absolute emissions of CO₂ by 7.0% from the fiscal year 2013 level by fiscal year 2020. The Group has added promoting the use of electric power generated from renewable energy, including by biomass boilers and solar power systems, as well as the purchase of low-carbon electric power, to core initiatives implemented in line with this target. In its next medium-term management plan, formulation of which is currently in progress, the Group will set a target for beyond fiscal year 2020.

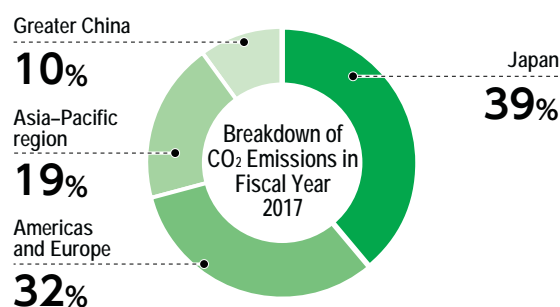
2 Energy Consumption and CO₂ Emissions by the Global DIC Group

Despite a 1.1% increase in production volume in fiscal year 2017, energy consumption by DIC Group companies worldwide decreased 2.9%, to 11,054,000 GJ, from 11,379,000 GJ in fiscal year 2016, while global CO₂ emissions declined 3.7%, to 634,741 metric tonnes, from 659,378 metric tonnes. CO₂ emissions per unit of production, expressed in terms of kilograms of CO₂ per metric tonne of production fell 4.7% to 296.0 kg CO₂/metric tonne, from 311.0 kg CO₂/metric tonne in the previous period, a decline of 9.5% from fiscal year 2013, the Group's current base year.

Global CO₂ Emissions in Fiscal Year 2017



CO₂ Emissions in Fiscal Year 2017 by Region



3 Reducing Fossil Fuel Use by Promoting the Introduction of Renewable Energy

Initiatives by DIC Group Companies in Japan

In fiscal year 2017, DIC Group companies in Japan used 497,000 GJ of energy from renewable sources, up from 410,000 GJ in fiscal year 2016, equivalent to 10.3% of total energy consumption by these companies. At the Kashima Plant, which accounted for almost the entire amount, DIC commenced operation of a newly installed megasolar power system with a generating capacity of 1,600 kW in January 2018. At the Hokuriku Plant, DIC replaced a number of its liquefied natural gas (LNG) boilers with a biomass boiler. As a consequence, renewable energy as a percentage of total energy consumption by DIC Group companies is expected to surpass 12.6%.



Megasolar and wind power systems at the Kashima Plant



Biomass boiler

Initiatives by DIC Group Companies Overseas

Initiatives by DIC Group companies outside Japan included installing a biomass boiler at Hainan DIC Microalgae Co., Ltd., and solar power systems at Qingdao DIC Finechemicals Co., Ltd., and Siam Chemical Industry Co., Ltd.; replacing a portion of the coal used to fire boilers with palm kernel shells (PKS) at the Karawang Plant of PT. DIC Graphics in Indonesia; and the expansion of solar power generating facilities at Sun Chemical Group companies. Thanks to these and other initiatives, renewable energy as a percentage of total energy consumption by DIC Group companies overseas, which was 5.2% in fiscal year 2017, is expected to reach 6.7%.

TOPIC 1

Solar Power System Installation Helps Reduce Energy Consumption and CO₂ Emissions

Recognizing the monsoon climate, abundant sunshine and excellent atmospheric conditions of Qingdao as suited to solar power generation, subsidiary Qingdao DIC Finechemicals, a manufacturer of base materials for TFT LCs, which it supplies to local customers, installed a solar power system that features panels on the roof of the company's plant building. The new system, which has a generating capacity of 440 kW, began operating in September 2017. With this installation, Qingdao DIC Finechemicals' annual output of solar power is expected to reach 480 MWh, reducing its annual CO₂ emissions by approximately 8.5% from the fiscal year 2016 level.

440 kW-capacity
solar power system at
Qingdao DIC Finechemicals



TOPIC 2

Sun Chemical Steps Up Efforts to Promote the Use of Renewable Energy

Sun Chemical signed a solar power purchase agreement (PPA) with Onyx Renewable Partners and installed a solar power system comprising more than 2,500 panels on the roof of its research facility in Carlstadt, California. Under the 20-year PPA, Onyx will own and maintain the system, which has a generating capacity of 916 kW. Sun Chemical will purchase power generated by the system at approximately 50% of the market rate, thereby helping to reduce energy costs.

Solar panels at
Sun Chemicals' research
facility in Carlstadt, California



4 Energy Consumption and CO₂ Emissions by the DIC Group in Japan

In fiscal year 2017, production volume by the DIC Group in Japan—the 52 sites operated by DIC and domestic Group companies—rose 2.9%. Although energy consumption remained level at 4,314,000 GJ, energy consumption per unit of production—the indicator specified in Japan's Act on the Rational Use of Energy—was down 2.4%, to 3.914 GJ/metric tonne, from 4.010 GJ/metric tonne in the previous fiscal year. Similarly, while CO₂ emissions rose 0.9%, to 244,395 metric tonnes, from 242,194 metric tonnes in fiscal year 2016, CO₂ emissions per unit of production declined 1.5%, to 222.0 kg CO₂/metric tonne, from 225.0 kg CO₂/metric tonne.

5 Independent Electric Power Generation: 23.0% of Total Consumption in Japan

In Japan, the DIC Group has natural gas turbine-powered cogeneration systems with a generating capacity of 1,700 kW in place at four plants (Chiba, Saitama, Gunma and Kashima). In April 2017, DIC replaced the existing cogeneration system at the Chiba Plant, which had a generating capacity of 5,300 kW, with a new high-efficiency 3,375 kW-capacity system, thereby realizing a volume of independently generated power ideally suited to current needs and reducing energy consumption thanks to an estimated 5.0% increase in efficiency. As a consequence, the maximum generating capacity of the Group's cogeneration systems was 14,000 kW. Electric power generated using cogeneration systems in fiscal year 2017 amounted to 44,270,000 kWh and represented 16.0% of energy consumed by the Group in Japan during the period, while total independently generated electric power, including that from renewable sources, accounted for 23.0%.

6 Energy Consumption and CO₂ Emissions by the DIC Group Overseas

While production volume by overseas DIC Group companies edged down 0.5% in fiscal year 2017, energy consumption by these companies declined 4.6%, to 6,740,000 GJ, from 7,065,000 GJ in fiscal year 2016 and energy consumption per unit of production slipped 4.1%, to 6.469 GJ/metric tonne, from 6.746 GJ/metric tonne. CO₂ emissions decreased 6.4%, to 390,346 metric tonnes, from 417,184 metric tonnes in the previous period, and CO₂ emissions per unit of production decreased 6.0%, to 374.6 kg CO₂/metric tonne, from 398.4 kg CO₂/metric tonne.

Reducing Discharge of Chemical Substances

Principal Initiatives in Fiscal Year 2017

1 Reducing Emissions of VOCs

In fiscal year 2017, emissions of VOCs into the air by DIC totaled 177 metric tonnes, a decrease of 6.3% from fiscal year 2016, while those by the DIC Group in Japan, at 371 metric tonnes, were down 3.6%. The principal factor behind these results was the fact that reduction initiatives at the Saitama Plant have become firmly ingrained in everyday operations.

Overseas, Group companies in Greater China and the Asia-Pacific region continued to promote ongoing emissions reductions. In the PRC, in particular, the Group is updating facilities and stepping up management practices in response to the tightening of local regulations governing VOC emissions.

2 Managing Water Resources

In fiscal year 2017, fresh water withdrawn by the global DIC Group edged down 0.5% from the fiscal year 2016 level, to 41,308,000 m³, while wastewater discharged rose 3.3%, to 38,822,000 m³. Effective from fiscal year 2017, the Group adopted the GRI's guideline for collecting data on water withdrawn and used* its water risk assessment tool to analyze initial water risk at 38 sites worldwide. With the aim of enhancing its ability to manage water resources, the Group also commenced a review of the status of water recycling efforts.

* Included in the GRI's G4 Sustainability Reporting Guidelines

3 Soil and Groundwater Pollution Studies

Japan's Water Pollution Control Act was revised in 2012 to tighten structural standards governing equipment installed to prevent groundwater contamination by chemical substances. In addition to complying strictly with this Act and with the Soil Contamination Countermeasures Act, the DIC Group in Japan implements soil and groundwater surveys and countermeasures as necessary and assesses related environmental and safety risks.

4 Reducing SOx, NOx and COD

Taking fiscal year 1990 as the base year, DIC Group companies in Japan have worked to reduce sulfur oxide (SOx) and nitrogen oxide (NOx) emissions, as well as chemical oxygen demand (COD). Overseas, Group companies are also switching fuel from light oil to natural gas and replacing light oil-fired and heavy oil-fired boilers with biomass boilers. To reduce COD, the Group is promoting the reuse of water and installing environment-friendly closed-loop recycling and wastewater treatment systems.

TOPIC

Newly Installed Thermal Combustion System at DIC Graphics (Guangzhou) Facilitates the Efficient Treatment of VOCs

In August 2017, DIC Graphics (Guangzhou) Ltd. installed a new system for thermally decomposing and deodorizing VOCs in exhaust gas from production processes. Because it facilitates the efficient thermal decomposition and deodorization of medium- and low-density VOCs, the new system has contributed to a significant reduction in energy consumption and maintenance requirements.



New system for thermally decomposing and deodorizing VOCs

Reducing Industrial Waste

Principal Initiatives in Fiscal Year 2017

Reducing Industrial Waste Disposed of as Landfill

The DIC Group works actively to reduce its disposal of industrial waste as landfill by recycling cinders, dust and sludge into, among others, roadbed materials and raw materials for cement, using thermal recycling to recover waste heat and reducing production losses by increasing yields.

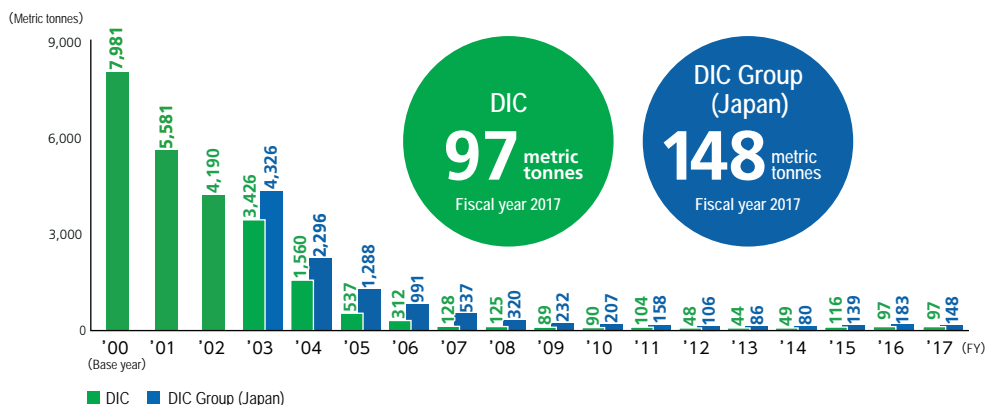
Initiatives by the DIC Group in Japan

In fiscal year 2017, the total volume of industrial waste disposed of as landfill by the DIC Group in Japan amounted to 148 metric tonnes, down 19.0% from fiscal year 2016. This result was attributable primarily to the updating of equipment at production facilities, which led to a one-time decline in the amount of sludge and other waste generated, as well as to efforts to bolster recycling at the Kashima Plant. In fiscal year 2018, all DIC Group companies in Japan will step up the implementation initiatives aimed at achieving zero emissions*.

DIC and DIC Group companies in Japan also continued working to ensure the appropriate disposal of polychlorinated biphenyls (PCBs). In addition, these companies promoted the strict management of unprocessed waste, including transformers, capacitors and stabilizers, through proper collection and storage in dedicated warehouses.

* Zero emissions initiatives: DIC is promoting initiatives aimed at reducing the volume of waste disposed of as landfill by 95% from the fiscal year 2000 level.

Industrial Waste Disposed of as Landfill



Managing Chemical Substances in Products

Efforts to Manage Chemical Substances

As a comprehensive global chemicals manufacturer, DIC approaches compliance with laws and regulations and the effective management of risks as essential to its survival. The Group works to maintain a solid grasp of laws and regulations in different countries and territories, and of trends relevant thereto, thereby ensuring its ability to design products that comply with regulations governing the use of chemical substances in products. The Group also strives to respond to requirements relating to the disclosure of information on chemical substances, thereby ensuring the safety of chemicals and products.

In 2002, participants in the World Summit on Sustainable Development (WSSD) in Johannesburg, South Africa, agreed on a goal for the management of chemical substances to minimize the significant adverse effects thereof on human health and the environment by 2020. Since then, DIC has promoted efforts to eliminate substances of high concern specified in the Montreal Protocol on Substances that Deplete the Ozone Layer, the Stockholm Convention on Persistent Organic Pollutants and the Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade, as well as to develop alternatives to products containing substances scheduled to be newly included in such agreements, as well as to actively provide information on chemical substances, with the aim of reducing risks to society.

As an expert in the management of chemical substances, DIC plays an active role in considering issues pertaining to chemical safety and regulations and developing responses through its participation in industry associations.

Reducing Risks through the Global Provision of Information

For products manufactured in Japan, DIC uses CIRIUS (Chemical Substance Information Comprehensive Management System) to centralize the management of information on raw materials and chemical substances. CIRIUS also automatically checks the Foreign Exchange and Foreign Trade Act, the Security Trade Control Law, the Act on the Evaluation of Chemical Substances and Regulation of their Manufacture, etc., and the Chemical Substances Control Law, as well as the Industrial Safety and Health Act and the Poisonous and Deleterious Substances Control Act, to facilitate the provision of reliable SDSs. The Company has also expanded deployment of the Weracs, a system for creating and issuing labels for products for export that incorporates know-how accumulated by DIC, to DIC Group companies overseas. In fiscal year 2017, the Weracs was introduced at an additional five overseas companies, bringing to 21 the number of companies using the system. By advancing use of the Weracs, DIC aims to prevent human error and increase business efficiency, as well as to facilitate globally consistent management based on a common system.

Complying with Laws and Regulations

DIC collects the latest information on chemical substances in overseas markets through international consultants and experts, news wire services and chemicals industry associations to ensure that it can respond swiftly and effectively to revisions in laws. In 2009, the Company began using CIRIUS to manage chemical substance information for products manufactured in Japan. In fiscal year 2013, DIC switched to the Weracs for creating SDSs and issuing labels for existing exported products, accelerating its ability to provide information to customers. To ensure an accurate grasp of trends, DIC has worked steadily to strengthen communication with local Group companies and in fiscal year 2016 reinforced its management framework by assigning dedicated full-time managers to regional headquarters for Greater China and the Asia-Pacific region.

Training in Chemical Substance Management

DIC endeavors to improve employees' awareness and knowledge of chemical substance regulations in Japan and overseas by holding workshops and maintaining a proprietary internal licensing system. As of fiscal year 2017, 1,473 employees held a Class A license, which requires specialized knowledge, and 194 held a Class B license, which pertains to ancillary operations, while a further 98 individuals had completed an advanced course demanding superior capabilities that was introduced in fiscal year 2015. In addition, 304 individuals held import licenses.

Export Licenses

Class A licenses

1,473

Class B licenses

194

Advanced course
licenses

98



Import Licenses

304



From DIC Group

VOICE

We are working to improve responsiveness to laws and regulations governing chemical substances.

I am in charge of responses to chemicals-related laws and regulations in the PRC. Operating in an increasingly harsh environment, we work continuously to improve compliance across all chemicals-related operations by promoting efforts aimed at reinforcing the chemical substance management capabilities of individual Group companies. We have added content related to the management of hazardous chemicals to ESH audits to assess the chemical substance management capabilities of individual production facilities. I oversee training in the use of the Weracs and the BarTender labeling software, which we are using to ensure compliance in the area of materials safety data sheets (MSDS) and label production.

By auditing the efforts of trading companies in the PRC to handle hazardous chemicals, and by providing training on laws pertinent to chemical substances, we will continue working to raise employees' awareness of laws and regulations governing chemical substances.



Corporate ESH Specialist, DIC (China) Co., Ltd. **Wenjing Zhang**

Responsible Logistics

Basic Policy and Framework for Promoting Initiatives

DIC's commitment to promoting Responsible Care encompasses initiatives aimed at ensuring safety in logistics, that is, at lowering chemical risks associated with the distribution of chemicals, and at reducing CO₂ emissions attributable to the transport of its products. The DIC Group's logistics configuration—components of which include transport between production facilities, the transport of products to customers and international logistics—previously centered on a dedicated subsidiary, established in 1999, that operated under the direct supervision of DIC. In a bid to rationalize and increase the efficiency of logistics, in 2011 DIC transferred ownership of the subsidiary to a partner firm and began to outsource its logistics. Since then, the Group has worked closely with this and other partner firms to improve the safety of and reduce CO₂ emissions attributable to logistics.

Safety Management in Logistics

The firms to which the DIC Group outsources logistics use containers that comply with the Fire Service Act and other transportation laws, as well as with related UN standards. The Group supplies information needed to display labels complying with the Globally Harmonized System of Classification and Labelling of Chemicals (GHS) as well as provides SDSs and other documentation to ensure safe shipping in Japan and overseas. In Japan, the Logistics Department cooperates with its logistics partner firms, meeting regularly to discuss measures for improving the safety of both loading and transport work. The Logistics Department also inspects the offices of logistics partners located on-site at its 20 main domestic production facilities. In fiscal year 2017, inspections were conducted at nine of these offices. In addition, DIC endeavors to maintain and enhance safety by requiring transport personnel to carry Yellow Cards*.

* Yellow Cards are part of activities recommended by the Japan Chemical Industry Association (JCIA). These cards contain information about the correct actions to take if an accident occurs. They provide contact details to ensure proper responses by transportation companies, firefighters and police officers if an accident occurs during the transport of chemical substances. Transport personnel must carry these cards at all times.

Reducing Greenhouse Gas Emissions Attributable to Logistics

While the volume of products shipped edged down 1.0%, energy consumption declined 3.0% and CO₂ emissions attributable to logistics decreased 4.0%. Energy consumption per unit of production attributable to logistics improved 1.0%. These results were attributable primarily to ongoing efforts to combine lots and an increase in the Group's modal shift rate to 12.0%, from 9.0% in fiscal year 2016.

In a new initiative, DIC commenced shared logistics on a trial basis. This involves collaborating with other chemicals manufacturers to ship products on one truck using a milk run format, thereby reducing the number of trucks needed, increasing load efficiency and minimizing emissions of CO₂. In an effort to assist overseas Group companies, in the period under review a logistics manager was assigned to DIC Asia Pacific, which oversees Group operations in the Asia-Pacific region. DIC also studied workflows at individual overseas Group companies with the goal of rationalizing and enhancing the efficiency of logistics.

Quality

<http://www.dic-global.com/en/csr/quality/>



Enhancing Product Quality and Customer Satisfaction

DIC's Quality Policy

"Contribute to the prosperity of customers and society by consistently providing reliable products." (Updated in May 2015)

Framework for Implementation

To better leverage its agility and comprehensive capabilities, DIC has established a matrix-like quality management configuration that positions product divisions on the vertical axis and the Technical Management Unit and Production Management Unit on the horizontal axis. In fiscal year 2015, DIC revamped its quality assurance configuration with the aim of building a stronger consensus between top management and employees on the front lines.

DIC is also taking steps to enhance internal quality audits and product quality-related educational initiatives to create a corporate culture that emphasizes initiatives aimed at improving the quality of its products. The Company's current configuration divides product quality into two functions: Product quality across the entire DIC Group, which is the responsibility of the Quality Assurance Department, and product-specific quality management, which is overseen by product division quality assurance groups and facilitates prompt and appropriate quality management.

1 Initiatives Aimed at Increasing Customer Satisfaction

To ensure its ability to provide high-quality products that customers feel secure using, DIC promotes a variety of quality improvement initiatives during product planning, design and development, the procurement of raw materials, production and sales, giving consideration to the need for effective product stewardship. Relevant product division quality assurance groups participate in design reviews from the initial stages of development, conducting rigorous evaluations at each stage, with the goal of providing the products and services that customers and markets seek. After products are sold, customer and market assessments are gathered and fed back to development departments to facilitate further quality improvements.

2 New Efforts to Enhance Product Quality-Related Educational Initiatives

Committed to providing safe, secure products that satisfy its customers, DIC recognizes the importance of ensuring that employees maintain a high awareness of quality, as well as a constant commitment to achieving further quality improvements and upholding high quality standards. To this end, the Company provides education regarding product quality to all DIC Group employees at specific times, including through training for newly hired and newly promoted employees.

In fiscal year 2017, the Company began holding meetings for employees responsible for quality assurance on the front lines to revitalize the efforts of employees and departments by facilitating the exchange of information and opinions.



Working to Enhance Job Satisfaction

SDGs Goals 3, 4, 5, 8 and 10



Respect for Human Rights

The DIC Group actively supports global codes governing human rights*, in line with which it is currently formulating the DIC Group Human Rights Policy, and promotes related initiatives. The DIC Group Code of Business Conduct, which outlines standards that DIC Group employees are expected to observe, lays down provisions prohibiting human rights violations and requiring respect for diversity, two philosophies that are the foundation of the Group's corporate activities.

* The International Bill of Human Rights, comprising the Universal Declaration of Human Rights and the International Covenants on Human Rights (the International Covenant on Economic, Social and Cultural Rights and the International Covenant on Civil and Political Rights); the International Labour Organization's Declaration on Fundamental Principles and Rights at Work; the United Nations' Guiding Principles on Business and Human Rights; and the Ten Principles of the Global Compact (UNGC).

The DIC Group Human Rights Policy

As a member of society that recognizes the importance of respect for human rights and respects the basic human rights of all stakeholders, including its customers, suppliers and employees, the DIC Group is currently formulating a human rights policy. Based on this policy, the Group will work to increase the human rights awareness of its executives and employees and to conduct its business activities in a manner that shows respect for human rights. DIC Group Human Rights Policy <http://www.dic-global.com/en/csr/stakeholder/staff.html>

Global Human Resources Management

In fiscal year 2017, DIC and DIC Graphics unified the qualification standards for 1,300 management-level (i.e., manager and above) employees. These changes came into effect in January 2018. As a consequence, unified duty- and role-based standards are now used for the majority of such employees in Europe and the Americas, the Asia-Pacific region, the PRC and Japan.

Basic Personnel Statistics (DIC)

		Fiscal year 2015	Fiscal year 2016	Fiscal year 2017
Number of employees	Male	2,898	2,653	2,618
	Female	683	660	655
	Total	3,581	3,313	3,273
Average age	Male	42.2	41.9	42.2
	Female	40.3	40.6	41.3
	Total	41.8	41.6	42.0
Average years of employment	Male	18.2	17.8	18.2
	Female	17.7	18.5	19.2
	Total	18.1	18.2	18.4
New graduates hired	Male	75	38	39
	Female	20	14	11
	Total	95	52	50

Retention rate (after three years)

Separations (voluntary) (number of individuals)

Separation rate (voluntary)

	Fiscal year 2015	Fiscal year 2016	Fiscal year 2017
	(Fiscal year 2012 hires)	(Fiscal year 2013 hires)	(Fiscal year 2014 hires)
Male	95.7%	91.3%	79%
Female	100%	91.7%	100%
Total	96.5%	91.4%	84%
Male	37	32	35
Female	8	8	11
Total	45	40	46
Male	1.3%	0.3%	1.3%
Female	1.2%	0.2%	1.7%
Total	1.3%	0.3%	1.4%

Integrating DIC Group Executive Evaluation Systems

The DIC Group has integrated its evaluation systems for Group company presidents and other executives in Japan and overseas with the goal of strengthening overall Group management. In addition, the Group encouraged these individuals not only to pursue near-term results for their companies but also to choose management approaches that are optimal for the Group as a whole from both a medium- and long-term perspective. The Group also integrated its global personnel policies to ensure that remuneration is in keeping with local market levels and individual job responsibilities.

Securing and Fostering Human Resources

1 Ensuring Fair and Consistent Treatment

DIC has consolidated its numerous employee qualification systems irrespective of job classification and educational credentials. The selection is done through screening based on objective standards, thereby guaranteeing equal opportunities for promotion to all motivated, capable employees. Remuneration and personnel evaluation systems designed to enhance job satisfaction ensure that individual employees' abilities and achievements are assessed appropriately and reflected in a timely manner. Of note, the Company has introduced management by objectives (MBO), a goal-setting management tool that promotes both corporate growth and employee development, into its personnel evaluation systems.

2 Fostering Human Resources to Reinforce Front-Line Capabilities and Accelerate Change

DIC has declared the medium-term focus of its human resources program as being to nurture human resources capable of reinforcing front-line capabilities and accelerating change. This program, which is divided into six categories, is based on curricula that emphasize a systematic approach to helping each employee acquire critical skills. Since fiscal year 2016, training has emphasized the concepts of "global" and "diversity," with areas emphasized including training to improve English-language skills and Japanese-language training for non-native speakers.

DIC Training Programs

Management-level training
Global human resources development
Level-specific training
Department- and job-specific training
On-the-job training
Self-development

3 Fostering Global Human Resources: Offering the Overseas Trainee and GCD Programs

The goal of DIC's Overseas Trainee Program is to foster global human resources by dispatching selected employees from Japan to work at a DIC Group company in another country for a specified period, thereby helping them develop a more international mindset, improve their skills and build networks with their colleagues overseas. As of the fiscal year 2017 year-end, 19 individuals were participating in this program.

Under the Global Capability Development (GCD) Program, employees from overseas Group companies are sent to work at DIC Group companies in Japan, giving them a chance to learn new skills and Japanese business techniques and to deepen their understanding of Japan's culture and commercial practices. In fiscal year 2017, Group companies in four countries sent one or two GCD Program participants from to spend between three months and one year at sites in Japan. The Company also initiated a training program for mid-tier employees designed to enhance global business skills. Participants attended classes conducted by native English speakers that focused on improving presentation, negotiation, debate and other skills.

1 Promoting Diversity

The DIC Group actively pursues diversity by employing a broad spectrum of individuals without regard to considerations such as gender, nationality, physical limitation or age. The Group works to foster a corporate culture that draws on its understanding and respect for diversity to produce creative ideas and to incorporate the concept of diversity into management, thereby creating workplaces that enhance job satisfaction for all employees.



1 Hiring Diverse Human Resources

With the objective of securing talented individuals with advanced specialized capabilities, global perspectives and language capabilities, DIC actively promotes the hiring of international students completing undergraduate or graduate studies at Japanese universities; Japanese and foreign nationals completing undergraduate or graduate studies at overseas universities; and experienced mid-career candidates with extensive experience and expertise. At present, approximately 40 foreign nationals are employed in various capacities at DIC.



From DIC Group

VOICE Thanks to the support of my supervisors and colleagues, I learned to really love my work.

I met a number of DIC employees at an academic conference when I was in graduate school and was really impressed by their positive attitude and broad expertise, so when I started looking for a job after graduation DIC was my first choice. My first assignment was in a department involved in developing LC products, which is completely different from my area of specialization in university and something I really did not know much about. Thanks to the support of my supervisors and colleagues, I was able to overcome any difficulties I faced and play a key role in developing products and learned to really love my work. To me, DIC's true appeal is its willingness to entrust important tasks to young employees and the fact that I have so many colleagues I can talk to about anything, whether work-related or personal. In April of this year, I was transferred to a department involved in gravure inks development, so I am once again working hard to learn new things with the aim of quickly becoming a useful part of my new team.

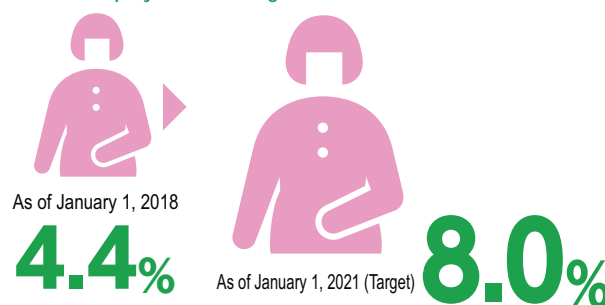


Dispersion Technical Group 1, Tokyo Plant Keumhee Jang

2 Expanding Career Opportunities for Women

In line with its commitment to promoting diversity, DIC implements a variety of initiatives to expand career opportunities for female employees. Having established a full-scale program to support employees in balancing the demands of a career and childcare in 2007, since fiscal year 2016 the Company has pushed ahead with measures to transform the mindset of employees and its corporate culture, as well as to provide training designed to encourage the drive and determination of female employees and broaden the range of jobs open to women.

Female Employees in Management Positions



1 Initiatives that Support a Healthy Work-Life Balance

DIC views a healthy work-life balance as essential to both self-realization and sustainable corporate growth. Accordingly, the Company continues to expand systems intended to facilitate such a balance, thereby helping ensure a healthy company. Well before the Japanese government launched its drive to promote work style reforms, in line with its belief that positive workplaces lead to higher productivity, DIC has promoted initiatives aimed at enabling all employees to realize both a satisfying work life and a fulfilling life outside work.

1 Enhancing Programs that Help Employees Balance the Demands of Work and Home

In 1986, DIC blazed a trail for chemicals manufacturers in Japan by implementing a childcare leave program. In fiscal year 2008, the Company acquired the Kurumin Mark, which recognizes companies that promote initiatives designed to assist employees in raising children. DIC has also deployed a system that gives regular employees the option to accept or refuse transfers requiring relocation and a system that allows management-level employees to limit the locations to which they will accept transfers, making it easier for individuals who are unable to accept transfers that involve relocation because of childbirth, childcare, nursing care or other responsibilities.

Promoting Measures to Retain Employees with Nursing Care Responsibilities

In Japan, one of the social ramifications of falling birth rates and lengthening life spans is an increase in the number of people requiring nursing care, as a result of which more people find themselves having to leave their jobs to take care of family members. Steps taken by the government to help address these issues include revising the Child Care and Family Care Law in 2016 to make it easier for individuals to take leave or time off and increasing benefits for temporary absences from work. To encourage use and promote knowledge of its related leave programs, in June 2017 DIC began distributing the *Childcare and Nursing Care Handbook*. DIC has also revised the rules of these programs, including making it possible to break up nursing care leave, as well as to shorten workdays, thereby making it easier for employees to use them.

Promoting Telecommuting

In fiscal year 2016, DIC began exploring the potential of telecommuting, which enables employees to work at home or another remote location using ICT, eliminating the time and location constraints of traditional work arrangements. The following year, employees and management conducted extensive talks to iron out details. After analyzing and evaluating the results of a trial involving 57 employees, in January 2018 the Company launched the DIC Telecommuting System, which is available to all employees at all sites in Japan.

Use of the Childcare Leave and Leave to Assist with Parenting Programs

Thanks to the introduction of various systems and the creation of an environment that encourages employees to make use thereof, the percentage of DIC employees who return to work after using DIC's Childcare Leave Program is currently 100%. The number of employees taking advantage of the Company's Leave to Assist with Parenting Program, available to the dependents of employees who have given birth, has also risen, reflecting increased awareness. Underscored by efforts to enhance these systems, the average years of employment for female employees has increased, exceeding the average for male employees.

Number of Employees Using the Childcare Leave and Leave to Assist with Parenting Programs

	Fiscal year 2014	Fiscal year 2015	Fiscal year 2016	Fiscal year 2017
Number of employees using the Childcare Leave Program	28	29	35	35
Number of employees using the Leave to Assist with Parenting Program	63	64	62	77

2 Reducing Extreme Overwork and Encouraging Employees to Take Annual Paid Leave

DIC has deployed an electronic system to manage on-site hours, working hours and approved overtime hours. As a measure to prevent extreme overtime, if an employee exceeds the agreed-upon overtime limit (80 hours/month), his or her supervisor and the senior executive in charge are automatically notified so that steps can be taken to ameliorate the situation. In addition, the Company has instituted a mandatory Groupwide "no overtime day." DIC also encourages employees to take annual paid leave, notably by recommending leave timing at each business site and having employees plan dates for such leave.

Caring for Mental Health

DIC takes steps to create environments in which employees feel physically and mentally supported. The Company places a particularly high priority on caring for psychological and emotional well-being and has established a comprehensive mental health program, highlights of which include engaging an in-house occupational psychologist and encouraging awareness as a way of warding off mental health problems. In fiscal year 2017, DIC conducted seminars led by an in-house physician at sites that have scored above a certain level in voluntary stress checks and provided counseling aimed at helping employees improve communications with supervisors, colleagues and family members.

TOPIC

DIC Earns "White 500" Certification in the Health & Productivity Outstanding Entities Recognition Program

DIC was certified for the first time in the large enterprise category (dubbed the "White 500") of the 2018 Health & Productivity Outstanding Entities Recognition Program, which is organized by Japan's Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi^{*1}. By shining a spotlight on outstanding enterprises working to advance health and productivity management, this program seeks to create an environment that ensures such enterprises gain enhanced public recognition—i.e., from employees, jobseekers, related companies and financial institutions—as organizations that approach employee health and productivity from a management perspective and promote strategic initiatives.

In addition to looking at whether enterprises have stipulated health management in their corporate mission and disclose pertinent information, the 2018 Health & Productivity Outstanding Entities Recognition Program assessed performance based on three criteria, namely, grasp of employee health-related issues and consideration of actions, establishment of a foundation for the practical implementation of health and productivity management measures and work engagement^{*2}, and promotion of efforts that help ensure the physical and mental health of employees. DIC received scores significantly above the industry average for all three of these criteria, finishing in the top 20% with a five-star rating.

^{*1} Nippon Kenko Kaigi ("Japan Health Council") is an organization that liaises with private companies, with the full backup of the government, to put effective measures in place to prolong the healthy life expectancy of citizens and to ensure sound medical services in Japan.

^{*2} A concept used to measure employees' mental health, work engagement is described as a positive, fulfilling work-related state of mind that is characterized by vigor, dedication and absorption. "Vigor" is taking pride and experiencing a sense of satisfaction in one's work, "dedication" is feeling strongly involved in and focused on one's work and "absorption" is being actively engrossed in one's work.





Promoting Socially Responsible Procurement Across the Supply Chain

SDGs Goal 12



The DIC Group CSR Procurement Guidelines

- ① Compliance with laws and social norms
- ② Respect for human rights and consideration for work environments
- ③ Safety and hygiene
- ④ Promotion of sound business management
- ⑤ Consideration for the environment
- ⑥ Information security
- ⑦ Appropriate quality and safety and improved technologies
- ⑧ Flexible attitude to ensure stable supplies and respond to change
- ⑨ Contribution to local communities and society
- ⑩ Promoting CSR and deploying it in the supply chain

Encouraging CSR Procurement

Based on the DIC Group Universal Purchasing Policy, and incorporating requirements contained in guidebooks put out by external organizations including the Japan Electronics and Information Technology Industries Association (JEITA), DIC formulated the DIC Group CSR Procurement Guidelines, a series of requirements pertaining to ESG-related imperatives, including the management of chemical substances in and reduction of the environmental impact of raw materials, as well as respect for human rights across its entire supply chain. With the aim of compelling suppliers to observe these guidelines, the DIC Group conducts assessments and on-site inquiries in accordance with the *DIC Group Supply-chain CSR Deployment Guidebook*. (Version 2 of the guidebook was published in July 2013.)

The DIC Group Green Procurement Guidelines

In line with the DIC Group Universal Purchasing Policy, DIC formulated the DIC Group Green Procurement Guidelines, which prohibit the procurement of materials containing hazardous substances in seven categories*¹. The guidelines mandate the submission of a DIC Raw Materials Survey, an SDS and a chemSHERPA*², as well as a DIC Group Green Procurement Guidelines Survey, when purchasing raw materials, thereby creating a system for eliminating substances of concern. Submission of a Conflict Minerals Survey is also required.

*¹ (1) Substances the production of which is prohibited, as outlined in Article 55 of Japan's Industrial Health and Safety Act; (2) Substances designated as class 1 specified chemical substances in Japan's Act on the Evaluation of Chemical Substances and Regulation of Their Manufacture, etc.; (3) Substances designated for monitoring under Japan's Act on the Evaluation of Chemical Substances and Regulation of Their Manufacture, etc.; (4) Chemical substances the production of which is already prohibited, as detailed in Japan's Act on the Protection of the Ozone Layer Through the Control of Specified Substances and Other Measures (ozone-depleting substances listed in the Montreal Protocol); (5) Specified particulates denoted in Japan's Air Pollution Control Act; (6) Specified poisonous substances indicated in Japan's Poisonous and Deleterious Substances Control Act; and (7) Specified substances detailed in the Stockholm Convention on Persistent Organic Pollutants.

*² chemSHERPA is a scheme designed to facilitate the accurate and efficient sharing of information on chemical substances in products across the entire supply chain. DIC began using chemSHERPA in late fiscal year 2017.

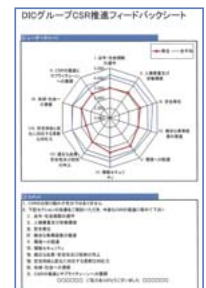
Analyzing the Results of Questionnaires

From November 2013 through December 2017, the DIC Group conducted assessments for 729 suppliers using version 2 of the *DIC Group Supply-chain CSR Deployment Guidebook*, accounting for 90%-plus of its procurement spending in Japan. The Group analyzed and assessed questionnaire responses, providing feedback to all 729 suppliers and requesting corrective measures for significant issues through on-site inquiries or written comments.

Cumulative Number of Suppliers Assessed (November 2013–December 2017)

729

Equivalent to 90%-plus of procurement spending in Japan



Feedback sheet

Conducting On-Site Inquiries

From fiscal year 2011 through fiscal year 2017, the DIC Group conducted on-site inquiries for 70 suppliers. The objective of these inquiries is to help suppliers further their understanding of CSR.

Global Procurement Initiatives

In fiscal year 2017, DIC and regional headquarters in the PRC and the Asia-Pacific region cooperated to conduct on-site inquiries for 12 suppliers in core businesses in the PRC based on the suppliers' CSR procurement assessment responses. DIC also worked with these suppliers to fortify understanding of issues related to local environmental regulations, and of environmental issues in the supply chain related to local legal and regulatory compliance, as well as to request corrective actions. Information on these on-site inquiries was shared at a global procurement conference with Sun Chemical.

Conflict Minerals

In compliance with the U.S. Securities and Exchange Commission's requirement for listed companies to report on their use of conflict minerals, the DIC Group published its Basic Policy concerning Conflict Minerals on its global website. This policy outlines the Group's pledge to refrain from using gold, tantalum, tungsten and tin, which are classified as conflict minerals, that is, minerals mined in conditions of armed conflict and abuse in the Democratic Republic of the Congo and its neighboring countries. The policy also states that should any raw materials purchased from third-party suppliers be found to contain conflict minerals, the DIC Group will immediately terminate the procurement thereof.

Basic Policy Concerning Conflict Minerals <http://www.dic-global.com/en/csr/stakeholder/conflict.html>

Basic Themes

Core and Category-Specific Themes

Themes that Demonstrate Unique Capabilities



Cultivating Next-Generation Businesses

SDGs Goals 8, 9 and 11



Promoting Businesses that Anticipate Social Imperatives

The DIC Group conducts tireless research aimed at addressing key technical challenges and is developing innovative materials and systems for storage batteries and sensors that will yield concrete, viable solutions, thereby contributing to sustainability. The Group also continues to promote business activities with roots in the needs of society with the aim of further evolving its business models.

Examples of Optimized Business Models that Respond to Social Imperatives

1 Near Infrared–Based Food Contaminant Detection System that Will Improve Food Safety

DIC is currently developing a near infrared–based food contaminant detection system in collaboration with Mitsui Kinzoku Instrumentations Technology Corporation. The system combines dyes that emit infrared for plastics and a device that detects near infrared and is thus expected to be able to identify plastic contaminants, which has traditionally been considered difficult. Thanks to near infrared's safety—it has minimal impact on human health—and the ease with which it penetrates matter, the potential for application in the detection of contaminants in food products is seen as being high.

2 Inks for Use in the Production of Inkjet-Printed QDCFs for Power-Efficient Displays

DIC is working with quantum dot (QD) manufacturer Nanosys, Inc., to develop inks for use in the production of the world's first cadmium-free QD jet inks for use in inkjet-printed quantum dot color filters (QDCFs). Because they facilitate the manufacture of displays that are more power efficient and deliver a wider color gamut and viewing angle than existing units, QDCFs are garnering considerable attention for use in next-generation displays. Going forward, DIC will continue promoting development with the goal of marketing inks for use in the production of inkjet-printed QDCFs, which will join the Company's LC materials and organic pigments for color filters as key offerings in this area, in fiscal year 2020.

3 Cell Culture Containers with Thermosensitive Polymer Coating for Use in Regenerative Medicine

DIC recently developed the *Cepallet*™ series of cell detachment–enhancing cell culture containers, which minimize damage to induced pluripotent stem (iPS) and embryonic stem (ES) cells during cell recovery. The containers represent a practical application of the results of research conducted in collaboration with Associate Professor Hirofumi Suemori of Kyoto University's Institute for Frontier Life and Medical Sciences and Masato Nakagawa, lecturer at Kyoto University's Center for iPS Research and Application (CiRA). The containers, which capitalize on DIC's exclusive synthesis and coating technologies, minimize damage to cultured cells during recovery, improving cell survival rates and the efficiency of recovery.

Anticipating Trends and Promoting Efforts to Identify and Cultivate Promising New Markets

With the aim of realizing sustainable growth over the medium to long term, the DIC Group has identified promising new markets arising from social imperatives in six key areas—resources, materials and energy; logistics and industrial equipment; electronic and electrical equipment; pharmaceuticals and medical devices; general consumer products; and construction infrastructure—and is striving to assess its ability to cultivate demand in each. The Group is also working to identify key technologies, as well as to discern technological issues that must be addressed, allowing it to accurately gauge growth and technology development potential and determine which of these markets it will enter.

AQUACEPTER®

Addressing the need to repair aging tunnels, roads, bridges and other infrastructure elements is an urgent priority. DIC and the Hanshin Expressway Group recently developed an innovative agent for stopping water ingress that employs **AQUACEPTER®**—a new material developed exclusively by DIC—and are currently conducting field trials on Hanshin Expressway tunnels. In addition to excellent adhesive strength for sealing leaks, the new agent provides flexibility that accommodates later concrete structural movement, making it an effective choice for preventing leaks not sealable using conventional methods. This new low-odor, environment-friendly, water-based agent also improves conditions for workers. DIC and the Hanshin Expressway Group will continue to promote active development efforts with the aim of helping extend the life of infrastructure.



Sealing leaks



AQUACEPTER®

Global Efforts to Expand Business Domains and Cultivate Next-Generation Businesses

Once it has resolved provisionally to enter a new market that offers promise from a global value chain perspective, the DIC Group sets about clarifying necessary technologies, systems and services, as well as key development themes. Focusing particularly on core businesses, the DIC Group is currently taking active steps to reinforce and expand its presence in key Asian markets, which are expected to see significant growth going forward, while at the same time broadening its reach to include emerging economies in Eastern Europe, South America and the Middle East. The Group is also seeking to drive further growth by promoting active R&D initiatives, spearheaded by R&D units at its domestic sites, in collaboration with R&D bases in the PRC, the Asia-Pacific region, and the Americas and Europe (the Sun Chemical Group).



Proposing Solutions that Leverage Elemental Technologies

SDGs Goals 9 and 12



Achieving Sustainable Growth

With the aim of achieving its Color & Comfort by Chemistry management vision, the DIC Group is leveraging its basic technologies, including those in the areas of optics and color, organic molecular design, polymer design and dispersion, as well as its core technologies in such areas as synthesis, compounding and formulation, and surface treatment, to develop high-value-added products that contribute to a sustainable society. The Group is also building a portfolio of next-generation products and new technologies by integrating technological resources originating across the Group, as well as actively promoting open innovation, to drive sustainable growth.

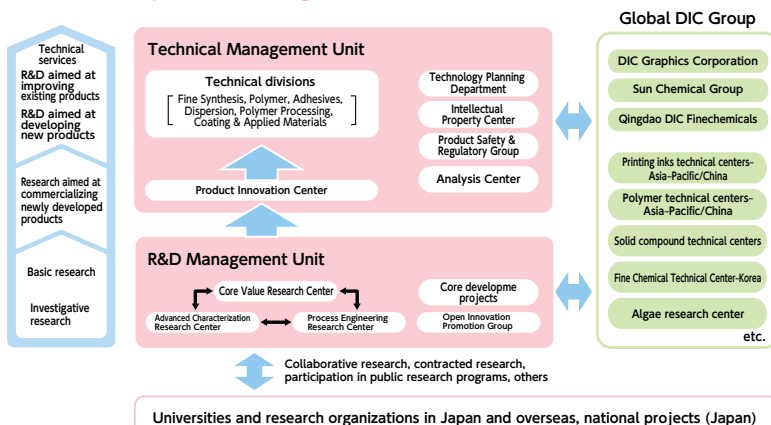
Specific Initiatives and Achievements

The DIC Group is promoting the development and use of clean technologies. The Company is encouraging a shift toward materials with reduced environmental impact—notably energy-saving, water-based and solvent-free materials, as well as materials for the electronics, automotive, packaging and other industries—that improve the environmental performance of the products in which they are used, which it has positioned as environment-friendly products.

A Global R&D Configuration that Underpins Product Development

The DIC Group's global R&D bases work as one to promote R&D aimed at realizing new technologies and products. DIC's Technical Management Unit and R&D Management Unit cooperate with the R&D components of DIC Group companies around the world. These include DIC Graphics; the Sun Chemical Group's research centers in the United States, the United Kingdom and Germany; Qingdao DIC Finechemicals, which conducts comprehensive R&D tailored to market needs in the PRC; printing inks technical centers (Asia-Pacific region and the PRC); polymer technical centers (Asia-Pacific region the Fine Chemical Technical Center-Korea, and the PRC); and solid compound technical centers (Asia-Pacific region, PRC and Germany). In addition, an algae research center in the United States capitalizes on the Group's accumulated expertise as a producer of Spirulina to conduct comprehensive algae-related research in areas ranging from cultivation to practical application.

The DIC Group's R&D Configuration



Promoting Environment-Friendly Products

The DIC Group is committed to effective stewardship of the products it provides. (For related information, please see page 44.) Conscious always of the importance of ensuring its products are environment-friendly, DIC promotes the development of products and new technologies that are useful to society and works to increase the weighting of environment-friendly products in its portfolio, by reducing the volume of hazardous substances it uses, focusing on products that are less hazardous and products that facilitate recycling, and realizing safer production processes that generate less waste and use less energy. The Group has established internal rules for designating products "environment-friendly" and works to increase the weighting of products that have earned this designation in their portfolio. In fiscal year 2017, environment-friendly products accounted for 56.0% of all products put out by DIC and subsidiary DIC Graphics. The Group also strives to maintain a solid grasp of laws and regulations in different countries and territories, and of trends in environmental measures—thereby ensuring its ability to design products that comply with diverse regulations governing the use of chemical substances in different markets—and conducts environmental assessments on a continuous basis.



From DIC Group

VOICE We are promoting the development of next-generation products that stabilize human thermal environments, thereby reducing energy consumption and enhancing comfort.

In the construction field, promoting far-reaching measures to reduce energy consumption is an urgent challenge. The impact of living environments on residents' health is also a subject of renewed scrutiny, further underscoring the importance of improving human thermal environments. With the aim of addressing this imperative, we developed and launched a new sheet-form passive heat storage material. Because the material itself absorbs and radiates heat, it helps to maintain comfortable indoor temperatures, reducing energy required for heating and cooling.

Conventional heat storage materials liquefy at a certain temperature, making their use in construction problematic. We leveraged proprietary technologies to create a material in sheet form that offers superb workability. To encourage widespread adoption of this product, we are currently promoting the creation of pertinent Japan Industrial Standards (JIS), among others. We have also begun submitting the material for use in projects to reduce energy consumption that are currently being supported by the Ministry of Land, Infrastructure, Transport and Tourism and the Ministry of Economy, Trade and Industry. In addition, we are cultivating applications in such areas as agriculture, civil engineering, constant-temperature transportation and automobiles, efforts that have begun to yield some very interesting data.



Manager, Coating & Applied Materials Technology Group 3, Coating & Applied Materials Technical Division **Kenichi Fujisaki**

Basic Themes

Core and Category-Specific Themes

Themes that Demonstrate Unique Capabilities



Adding Color & Comfort to Lifestyles



SDGs Goals 3 and 4

Examples of Recent Initiatives

Visiting Science Lab Program

In line with the Japanese government's efforts to promote career education initiatives, as well as to help curb a decline in the popularity of science among children, DIC and DIC Graphics conduct visiting science labs at public elementary schools. Through this program, the Group seeks to spark children's interest in science and encourage them to realize the close relationship between science and their everyday lives. Since launching this initiative in 2010, the two companies have conducted visiting science labs at 35 schools for approximately 2,700 sixth-graders. In fiscal year 2017, this program won silver in the 2017 Education Support Grand Prix, sponsored by Tokyo-based Leave a Nest Co., Ltd. Jury members gave high marks to the program's use of know-how and technologies unique to the DIC Group and its clear positioning as an initiative that enables the Group to contribute through its business activities to the success of the SDGs. DIC pledges to continue offering this program in the years ahead.



Visiting science lab



Comment

This is a program that is closely linked to children's everyday lives.

DIC and DIC Graphics began conducting science labs at our school in 2017. In addition to the employee who served as instructor, the lab included a number of other employees, each of who worked with four or five students. This ensured that experiments were both safe and fun, resulting in a science lab that was a truly valuable experience for all participants. In addition to helping children realize that studying science is useful in everyday life, the lab aligned with regular curriculum units. Another factor contributing to the science lab's appeal is the fact that the school's burden for preparation was minimal. From the perspective of career education, the value of these science labs is enhanced by the fact that they are conducted by a well-known company with close ties to our community.



Principal, Itabashi Municipal Kami-Itabashi No. 2 Elementary School Yukio Ozawa

Initiatives Led by the Central Research Laboratories

The Central Research Laboratories offer a variety of programs in such uniquely DIC topics as synthesis and chromatics to the students of local schools. In December 2017, students from Chiba Prefectural Sakura High School—a Super Science High School*—were invited to take part in a visiting lab lesson conducted by staff of the Central Research Laboratories on the themes of “colorant extraction using Spirulina” and “measuring rheologic behavior using mayonnaise and honey.” The young researchers who serve as lab instructors also incorporated a career education component, taking time to talk to students about how they became interested in science, their choice of university and the challenges and rewards of being a researcher.



Visiting lab lesson

* A designation awarded by Japan's Ministry of Education, Culture, Sports, Science and Technology (MEXT) to senior high schools that implement curricula focused on the sciences and mathematics that goes beyond MEXT's official guidelines with the aim of fostering the next generation of talented engineers and scientists.

Kawamura Memorial DIC Museum of Art

The Kawamura Memorial DIC Museum of Art, located adjacent to the Central Research Laboratories in Sakura, Chiba Prefecture, was established in 1990 to publicly exhibit works of art collected by DIC Corporation and its affiliates. In 2018, the museum is celebrating its 29th anniversary. The museum's extensive collection spans numerous genres, encompassing works by Rembrandt; Impressionists such as Monet and Renoir; modern European artists such as Picasso and Chagall; early modern, modern and postwar Japanese artists; and luminaries of late-20th century American art, including Mark Rothko, Cy Twombly and Frank Stella. In addition to its standing exhibit from its permanent collection of more than 1,000 major works, the museum stages special exhibitions several times a year that focus on pertinent literary works and other artifacts that evoke the cultural atmosphere at the time works were created to help visitors better understand the collection. Another appealing aspect of the museum is its location on a lushly forested 10-hectare site alive with seasonal flowers and foliage that has been open to the public since the museum's establishment.

In a move aimed at promoting relations with the local community and fostering local cultural activities, the Kawamura Memorial DIC Museum of Art has established an annex gallery on the museum site that serves as an exhibition space for local amateur artists and is also made available to elementary and junior and senior high schools in the Sakura area for an exhibition of local students' works. The museum was also the first in Japan to introduce interactive methods originated by the Museum of Modern Art in New York for teaching children about art. To date, a total of 150 schools and more than 10,000 children have taken part in the museum's educational programs, which are offered to entire classes led by elementary or junior high school teachers. This program has been certified every year since its establishment by the Association for Corporate Support for Arts under its This is MECENAT program.



Kawamura Memorial DIC Museum of Art

Matching Gift Program

DIC has a matching gift program whereby it matches the total amount collected through an annual year-end fundraising drive spearheaded by its employees' union. Funds raised through the 2017 drive and matching gift program were donated to 22 children's homes and facilities providing support for disabled individuals. In October 2017, the efforts of the team responsible for this program at the Sakai Plant over many years received a certificate of appreciation by the mayor of Osaka.



Promoting Disclosure and Communication

The DIC Group places a priority on communication with its stakeholders worldwide, as outlined in Article 7 of its Policy on Corporate Governance.

Article 7 (Ensuring Appropriate Information Disclosure and Transparency)

The Company shall ensure transparency and fairness; and in order to gain the correct understanding and trust from stakeholders, shall timely and appropriately disclose information relating to matters such as the DIC Group's management philosophy, management policies, business plans, financial condition and sustainability activities.

	Ties with customers	Ties with shareholders and investors	Ties with society	Ties with employees	Ties with the media
Basic approach	Build trusting relationships. By incorporating the demands of customers, seek to develop products that enhance customer satisfaction.	Ensure appropriate disclosure and build trusting relationships with shareholders and investors, encouraging both to evaluate DIC as an attractive investment.	Operate in harmony with the community and build positive relationships with local residents that will underpin the long-term sustainability of operations.	Provide workplaces that are conducive to job satisfaction and enable all employees to fulfill their potential. Over the long term, achieve true diversity.	Deepen mutual understanding through effective publicity, advertising and other communications efforts.
Communications tools	<ul style="list-style-type: none"> ● Websites ● Product pamphlets ● Corporate profile DVDs ● DIC Report ● Corporate PR film ● News releases ● Television advertisements 	<ul style="list-style-type: none"> ● Websites ● Press conferences ● Quarterly results announcements ● Yuka Shoken Hokokusho (financial disclosure document required of listed companies in Japan) ● Timely disclosure ● Notice of Convocation of the Annual General Meeting of Shareholders ● Shareholder newsletters ● Corporate profile DVDs ● DIC Report ● News releases ● Television advertisements 	<ul style="list-style-type: none"> ● Websites ● Site reports ● Corporate profile DVDs ● DIC Report ● News releases ● Television advertisements 	<ul style="list-style-type: none"> ● DIC Plaza (in-house newsletter) ● Intranet ● DIC Pocket Book (in-house Group data file) ● DIC Report ● Corporate PR film ● News releases ● Television advertisements ● Global linkage ● Branding questionnaire 	<ul style="list-style-type: none"> ● Press conferences ● Interviews with journalists ● DIC Report ● News releases ● Television advertisements
Opportunities for communication	<ul style="list-style-type: none"> ● Sales activities ● Participation in exhibitions 	<ul style="list-style-type: none"> ● General shareholders' meetings ● Results presentations ● IR conferences ● IR meetings ● DIC IR Day 	<ul style="list-style-type: none"> ● Production facility tours ● Participation in projects involving collaboration among industrial concerns, government bodies and academic institutions ● Participation in community events ● Environmental monitoring 	<ul style="list-style-type: none"> ● Labor-management councils ● Results presentations for employees ● Presentations on the DIC Group Code of Business Conduct ● Sustainability presentations 	<ul style="list-style-type: none"> ● Newspapers ● Economic publications ● Industry publications

Basic Themes

Core and Category-Specific Themes

Themes that Demonstrate Unique Capabilities

Ties with Customers



CITE Japan



interPack2017

Ties with Society



DIC's display at Tokyo's Itabashi Public Library



Award certificate from the All Japan Calendar Competition 2018

Ties with the Media

Press conferences held in fiscal year 2017

85

Interviews with journalists in fiscal year 2017

94

Ties with Shareholders and Investors



Results presentation (February 2018)



DIC IR Day (December 2017)

Ties with Employees



Results presentation for employees (February 2018)



Facility tour for the families of employees (Kashima Plant)



DIC Plaza in-house newsletter

Financial Report for Fiscal Year 2017

Analysis of Results of Operations

Overview of Operating Results

While economic conditions worldwide recovered gradually in fiscal year 2017, ended December 31, 2017, economic uncertainty, fluctuations in the financial and capital markets and the direction of oil prices, among others, continued to warrant caution. Moderate recovery persisted in the economies of North America and Europe. A revival was seen in Asia. Japan's economy also continued to rally steadily.

In this environment, consolidated net sales increased 5.1%, to ¥789.4 billion, reflecting multiple factors, including firm shipments. Operating income advanced 4.2%, to ¥56.5 billion, as increased sales of high-value-added products and the progress of cost reductions offset the impact of rising raw materials prices, among others. Ordinary income rose 2.1%, to ¥57.0 billion, with contributing factors including higher operating income and an improved financial position. Net income attributable to owners of the parent climbed 11.0%, to ¥38.6 billion, owing to a decrease in extraordinary loss and other factors.

(Billions of yen)

	FY2016	FY2017	Change (%)	Local currency basis
Net sales	751.4	789.4	5.1%	3.5%
Operating income	54.2	56.5	4.2%	3.9%
Ordinary income	55.8	57.0	2.1%	—
Net income attributable to owners of the parent	34.8	38.6	11.0%	—

Note: The exchange rates used to translate the results of overseas DIC Group companies for fiscal years 2017 and 2016, respectively, are as follows:
 Fiscal year 2017: ¥112.33/US\$1.00 (average for the year ended December 31, 2017)
 Fiscal year 2016: ¥109.96/US\$1.00 (average for the year ended December 31, 2016)

Segment Results

(Billions of yen)

	Net sales				Operating income (loss)			
	FY2016	FY2017	Change (%)	Local currency basis	FY2016	FY2017	Change (%)	Local currency basis
Printing Inks	365.2	373.7	2.3%	0.5%	18.4	17.4	-5.0%	-4.0%
Fine Chemicals	128.2	135.4	5.7%	3.5%	14.4	17.4	20.3%	18.3%
Polymers	180.9	197.9	9.4%	8.4%	19.6	19.6	-0.2%	-0.7%
Compounds	61.1	64.7	5.8%	4.8%	5.0	5.0	0.3%	0.9%
Application Materials	55.7	56.1	0.7%	0.4%	1.9	2.6	39.2%	38.9%
Others, corporate and eliminations	(39.7)	(38.4)	—	—	(5.1)	(5.5)	—	—
Total	751.4	789.4	5.1%	3.5%	54.2	56.5	4.2%	3.9%

Segment results in key markets are as follows. Year-on-year percentage changes in squared parentheses represent increases or decreases on a local currency basis. Interregional transactions within the Printing Inks segment are included. Accordingly, the aggregates of regional net sales and operating income figures for the Printing Inks segment differ from the figures presented above.

Printing Inks

■ Japan

Net sales	¥77.1 billion	Change	-3.3%
Operating income	¥3.9 billion	Change	-22.5%

Sales of packaging inks benefited from firm shipments. Nonetheless, overall sales in Japan decreased, reflecting factors such as diminished demand for publishing inks and news inks.

Operating income fell sharply, owing to the aforementioned sales results and other factors.

■ The Americas and Europe

Net sales	¥241.1 billion	Change	3.6%	[1.4%]
Operating income	¥9.5 billion	Change	12.9%	[16.5%]

Although demand for publishing inks and news inks waned, sales in North America were flat, with causes including higher shipments of packaging inks. In Europe, sales edged up, as firm shipments of publishing inks and packaging inks countered falling demand for news inks. Sales in Central and South America rose, buoyed by robust shipments of packaging inks. As a result, overall sales in the Americas and Europe increased.

Operating income advanced, bolstered by the aforementioned sales results and rationalization measures, among others.

■ Asia and Oceania

Net sales	¥64.8 billion	Change	5.3%	[2.2%]
Operating income	¥4.0 billion	Change	-17.2%	[-19.8%]

While shipments of packaging inks were solid, sales in the PRC decreased, hindered by factors such as flagging demand for publishing inks and news inks. In Southeast Asia, sales were pushed up by higher shipments of publishing inks and packaging inks. Sales in Oceania fell, with causes including fading demand for news inks. Sales in India increased, bolstered by brisk shipments of publishing inks and packaging inks. For these and other reasons, overall sales in Asia and Oceania rose.

Operating income declined, regardless of the aforementioned sales results, a consequence of rising raw materials prices and other factors.

Fine Chemicals

Net sales	¥135.4 billion	Change	5.7%	[3.5%]
Operating income	¥17.4 billion	Change	20.3%	[18.3%]

Sales of pigments were down, despite a steep increase in shipments of functional pigments, including those for color filters, owing to flagging demand for other pigments. Sales of TFT LCs rose substantially, reflecting favorable shipments. These factors supported higher segment sales.

Segment operating income was up significantly, underpinned by an improved product mix, among others.

Polymers

Net sales	¥197.9 billion	Change	9.4%	[8.4%]
Operating income	¥19.6 billion	Change	-0.2%	[-0.7%]

Sales in Japan rose, bolstered by increased shipments of high-value-added products, polystyrene and other products. Sales overseas were up sharply, thanks to generally firm shipments. For these and other reasons, segment sales advanced.

Notwithstanding the impact of rising raw materials prices, segment operating income was flat. Factors behind this result included the aforementioned sales results.

Compounds

Net sales	¥64.7 billion	Change	5.8%	[4.8%]
Operating income	¥5.0 billion	Change	0.3%	[0.9%]

Healthy shipments pushed up sales of PPS compounds. Steadily expanding shipments bolstered sales of jet inks. Owing to these and other factors, segment sales rose.

Segment operating income remained level. Reasons behind this result included the aforementioned sales results, which offset increases in raw materials prices and costs associated with advance investments.

Application Materials

Net sales	¥56.1 billion	Change	0.7%	[0.4%]
Operating income	¥2.6 billion	Change	39.2%	[38.9%]

Segment sales increased, with contributing factors including higher shipments of industrial adhesive tapes and hollow-fiber membrane modules.

Segment operating income rose substantially, spurred by an improved product mix and efforts to reduce costs, among others.

Consolidated Financial Statements

Consolidated Balance Sheet As of December 31, 2016 and 2017

(Millions of yen)

(Thousands of U.S. dollars) *

	2016	2017	2017
Assets			
Current assets			
Cash and deposits	17,241	17,883	158,257
Notes and accounts receivable—trade	215,369	226,968	2,008,566
Merchandise and finished goods	82,611	90,010	796,549
Work in process	9,461	9,053	80,115
Raw materials and supplies	53,605	58,911	521,336
Deferred tax assets	9,915	9,574	84,726
Other	21,374	23,340	206,549
Allowance for doubtful accounts	(10,839)	(10,763)	(95,248)
Total current assets	398,737	424,976	3,760,850
Non-current assets			
Property, plant and equipment			
Buildings and structures	256,603	261,221	2,311,690
Accumulated depreciation	(164,511)	(168,778)	(1,493,611)
Buildings and structures, net	92,092	92,443	818,080
Machinery, equipment and vehicles	397,740	409,362	3,622,673
Accumulated depreciation	(331,398)	(338,808)	(2,998,301)
Machinery, equipment and vehicles, net	66,342	70,554	624,372
Tools, furniture and fixtures	59,652	63,336	560,496
Accumulated depreciation	(49,510)	(52,207)	(462,009)
Tools, furniture and fixtures, net	10,142	11,129	98,487
Land	50,169	50,307	445,195
Construction in progress	7,915	7,244	64,106
Total property, plant and equipment	226,660	231,677	2,050,239
Intangible assets			
Goodwill	501	199	1,761
Software	4,878	3,837	33,956
Other	3,563	3,548	31,398
Total intangible assets	8,942	7,584	67,115
Investments and other assets			
Investment securities	41,007	76,867	680,239
Deferred tax assets	36,996	31,871	282,044
Net defined benefit asset	28,074	33,408	295,646
Other	25,899	26,858	237,681
Allowance for doubtful accounts	(1,487)	(1,485)	(13,142)
Total investments and other assets	130,489	167,519	1,482,469
Total non-current assets	366,091	406,780	3,599,823
Total assets	764,828	831,756	7,360,673

* Yen amounts have been translated, for readers' convenience only, at the rate of ¥113 to US\$1, the approximate rate of exchange on December 31, 2017.

Consolidated Balance Sheet

(Millions of yen)

(Thousands of U.S. dollars)*

	2016	2017	2017
Liabilities			
Current liabilities			
Notes and accounts payable—trade	94,392	117,199	1,037,159
Short-term loans payable	52,744	61,385	543,230
Current portion of long-term loans payable	43,647	27,677	244,929
Lease obligations	584	557	4,929
Income taxes payable	4,153	4,793	42,416
Deferred tax liabilities	322	399	3,531
Provision for bonuses	7,050	7,071	62,575
Other	62,447	47,509	420,434
Total current liabilities	265,339	266,590	2,359,204
Non-current liabilities			
Bonds payable	30,000	50,000	442,478
Long-term loans payable	109,918	122,017	1,079,796
Lease obligations	4,394	4,045	35,796
Deferred tax liabilities	9,598	11,653	103,124
Net defined benefit liability	28,072	22,774	201,540
Asset retirement obligations	1,334	1,329	11,761
Other	9,156	9,397	83,159
Total non-current liabilities	192,472	221,215	1,957,655
Total liabilities	457,811	487,805	4,316,858
Net assets			
Shareholders' equity			
Capital stock	96,557	96,557	854,487
Capital surplus	94,094	94,445	835,796
Retained earnings	159,541	186,768	1,652,814
Treasury shares	(1,213)	(1,828)	(16,177)
Total shareholders' equity	348,979	375,942	3,326,920
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	5,248	7,874	69,681
Deferred gains or losses on hedges	(187)	(3)	(27)
Foreign currency translation adjustment	(48,626)	(46,462)	(411,168)
Remeasurements of defined benefit plans	(26,879)	(22,222)	(196,655)
Total accumulated other comprehensive income	(70,444)	(60,813)	(538,168)
Non-controlling interests	28,482	28,822	255,062
Total net assets	307,017	343,951	3,043,814
Total liabilities and net assets	764,828	831,756	7,360,673

* Yen amounts have been translated, for readers' convenience only, at the rate of ¥113 to US\$1, the approximate rate of exchange on December 31, 2017.

Consolidated Statement of Income Years ended December 31, 2016 and 2017

(Millions of yen)

(Thousands of U.S. dollars) *

	2016	2017	2017
Net sales	751,438	789,427	6,986,080
Cost of sales	571,895	605,809	5,361,142
Gross profit	179,543	183,618	1,624,938
Selling, general and administrative expenses			
Freightage and packing expenses	12,050	12,596	111,469
Employees' salaries and allowances	40,461	41,857	370,416
Provision of allowance for doubtful accounts	2,016	330	2,920
Provision for bonuses	2,781	2,760	24,425
Retirement benefit expenses	2,117	959	8,487
Research and development costs	11,206	12,427	109,973
Other	54,730	56,206	497,398
Total selling, general and administrative expenses	125,361	127,135	1,125,088
Operating income	54,182	56,483	499,850
Non-operating income			
Interest income	575	1,817	16,080
Dividends income	401	447	3,956
Equity in earnings of affiliates	3,266	4,069	36,009
Foreign exchange gains	607	—	—
Other	2,182	2,019	17,867
Total non-operating income	7,031	8,352	73,912
Non-operating expenses			
Interest expenses	3,227	3,565	31,549
Foreign exchange losses	—	1,456	12,885
Other	2,189	2,854	25,257
Total non-operating expenses	5,416	7,875	69,690
Ordinary income	55,797	56,960	504,071
Extraordinary income			
Gain on sales of non-current assets	—	1,156	10,230
Gain on change in equity	—	641	5,673
Gain on sales of subsidiaries and affiliates securities	—	315	2,788
State subsidy	842	—	—
Gain on bargain purchase	78	—	—
Total extraordinary income	920	2,112	18,690
Extraordinary loss			
Loss on disposal of non-current assets	4,412	2,682	23,735
Severance costs	1,416	951	8,416
Early termination fee	—	376	3,327
Impairment loss	—	234	2,071
Provision of allowance for doubtful accounts	553	—	—
Loss on disaster	440	—	—
Total extraordinary loss	6,821	4,243	37,549
Income before income taxes and non-controlling interests	49,896	54,829	485,212
Income taxes—current	11,565	10,517	93,071
Income taxes—deferred	767	3,388	29,982
Total income taxes	12,332	13,905	123,053
Net income	37,564	40,924	362,159
Net income attributable to non-controlling interests	2,797	2,321	20,540
Net income attributable to owners of the parent	34,767	38,603	341,619

* Yen amounts have been translated, for readers' convenience only, at the rate of ¥113 to US\$1, the approximate rate of exchange on December 31, 2017.

Consolidated Statement of Comprehensive Income Years ended December 31, 2016 and 2017

(Millions of yen)

(Thousands of U.S. dollars) *

	2016	2017	2017
Net income	37,564	40,924	362,159
Other comprehensive income			
Valuation difference on available-for-sale securities	1,609	2,590	22,920
Deferred gains or losses on hedges	(112)	183	1,619
Foreign currency translation adjustment	(18,179)	979	8,664
Remeasurements of defined benefit plans, net of tax	6,266	4,718	41,752
Share of other comprehensive income of associates accounted for using equity method	(965)	1,563	13,832
Total other comprehensive income	(11,381)	(10,033)	88,788
Comprehensive income	26,183	50,957	450,947
Comprehensive income attributable to			
Comprehensive income attributable to owners of the parent	23,734	48,234	426,850
Comprehensive income attributable to non-controlling interests	2,449	2,723	24,097

* Yen amounts have been translated, for readers' convenience only, at the rate of ¥113 to US\$1, the approximate rate of exchange on December 31, 2017.

Consolidated Statement of Changes in Net Assets

Years ended December 31, 2016 and 2017

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at January 1, 2016	96,557	94,161	137,071	(5,911)	321,878
Dividends from surplus			(7,585)		(7,585)
Net income attributable to owners of the parent			34,767		34,767
Purchase of treasury shares				(19)	(19)
Retirement of treasury shares		(5)	(4,712)	4,717	—
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(62)			(62)
Net changes of items other than shareholders' equity					
Balance at December 31, 2016	96,557	94,094	159,541	(1,213)	348,979
Dividends from surplus			(11,376)		(11,376)
Net income attributable to owners of the parent			38,603		38,603
Purchase of treasury shares				(615)	(615)
Change in treasury shares of parent arising from transactions with non-controlling shareholders		351			351
Net changes of items other than shareholders' equity					
Balance at December 31, 2017	96,557	94,445	186,768	(1,828)	375,942

(Thousands of U.S. dollars) *

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at December 31, 2016	854,487	832,690	1,411,867	(10,735)	3,088,310
Dividends from surplus	0	0	(100,673)	0	(100,673)
Net income attributable to owners of the parent	0	0	341,619	0	341,619
Purchase of treasury shares	0	0	0	(5,442)	(5,442)
Change in treasury shares of parent arising from transactions with non-controlling shareholders	0	3,106	0	0	3,106
Net changes of items other than shareholders' equity	0	0	0	0	0
Balance at December 31, 2017	854,487	835,796	1,652,814	(16,177)	3,326,920

* Yen amounts have been translated, for readers' convenience only, at the rate of ¥113 to US\$1, the approximate rate of exchange at December 31, 2017.

(Millions of yen)

	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, 2016	3,688	(73)	(29,925)	(33,101)	(59,411)	27,390	289,875
Dividends from surplus							(7,585)
Net income attributable to owners of the parent							34,767
Purchase of treasury shares							(19)
Retirement of treasury shares							—
Change in treasury shares of parent arising from transactions with non-controlling shareholders							(62)
Net changes in items other than shareholders' equity	1,560	(114)	(18,701)	6,222	(11,033)	1,092	(9,941)
Balance at December 31, 2016	5,248	(187)	(48,626)	(26,879)	(70,444)	28,482	307,017
Dividends from surplus							(11,376)
Net income attributable to owners of the parent							38,603
Purchase of treasury shares							(615)
Change in treasury shares of parent arising from transactions with non-controlling shareholders							351
Net changes in items other than shareholders' equity	2,626	184	2,164	4,657	9,631	340	9,971
Balance at December 31, 2017	7,874	(3)	(46,462)	(22,222)	(60,813)	28,822	343,951

(Thousands of U.S. dollars) *

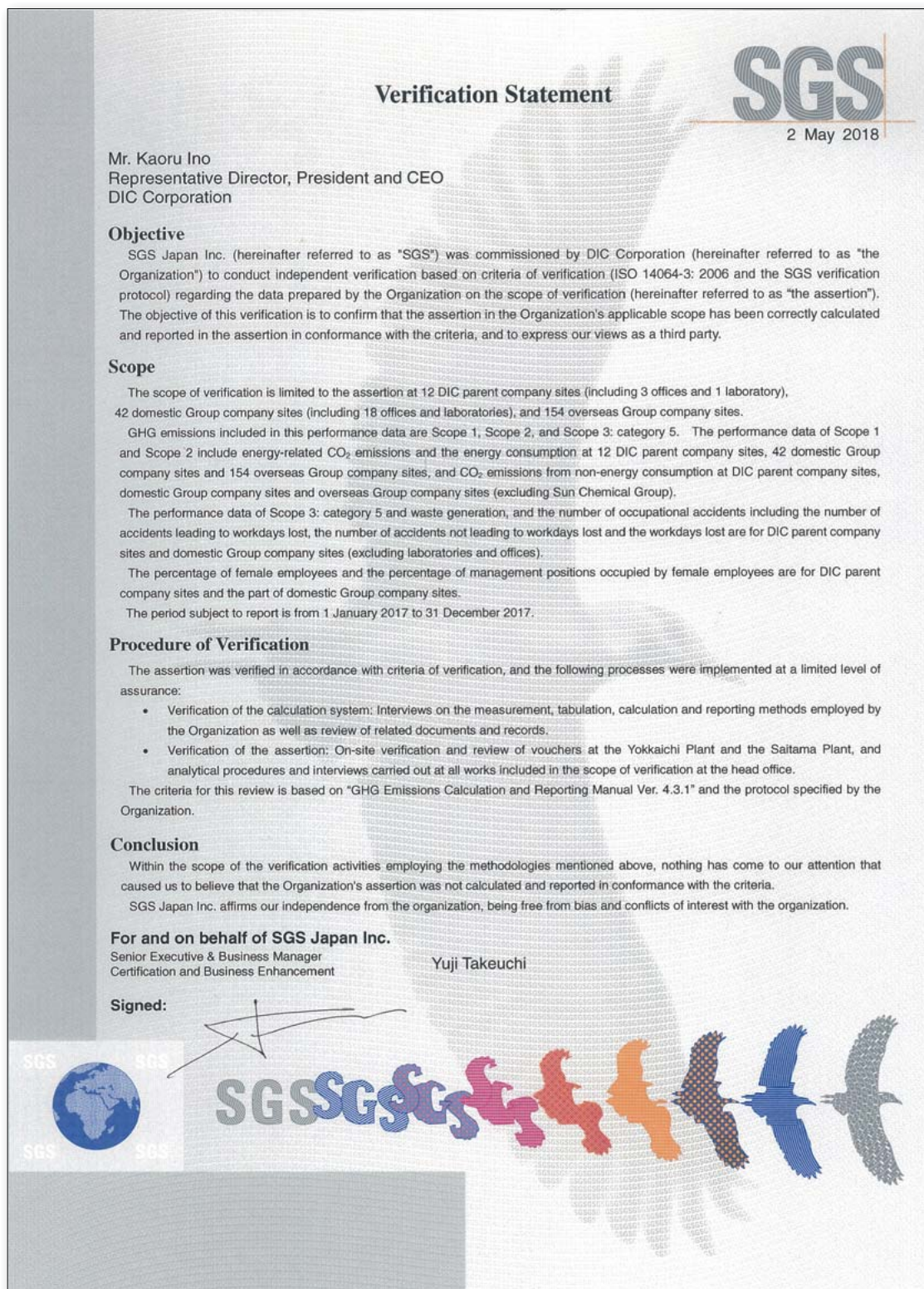
	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at December 31, 2016	46,442	(1,655)	(430,319)	(237,867)	(623,398)	252,053	2,716,965
Dividends from surplus	0	0	0	0	0	0	(100,673)
Net income attributable to owners of the parent	0	0	0	0	0	0	341,619
Purchase of treasury shares	0	0	0	0	0	0	(5,442)
Change in treasury shares of parent arising from transactions with non-controlling shareholders	0	0	0	0	0	0	3,106
Net changes of items other than shareholders' equity	23,239	1,628	19,150	41,212	85,230	3,009	88,239
Balance at December 31, 2017	69,681	(27)	(411,168)	(196,655)	(538,168)	255,062	3,043,814

* Yen amounts have been translated, for readers' convenience only, at the rate of ¥113 to US\$1, the approximate rate of exchange at December 31, 2017.

	2016	2017	2017
Net cash provided by (used in) operating activities			
Income before income taxes and non-controlling interests	49,896	54,829	485,212
Depreciation and amortization	32,444	31,524	278,973
Amortization of goodwill	373	345	3,053
Increase (decrease) in allowance for doubtful accounts	1,540	(720)	(6,372)
Increase (decrease) in provision for bonuses	149	13	115
Interest and dividends income	(976)	(2,264)	(20,035)
Equity in (earnings) losses of affiliates	(3,266)	(4,069)	(36,009)
Interest expenses	3,227	3,565	31,549
Loss (gain) on sales and retirement of non-current assets	4,412	1,526	13,504
Impairment loss	—	234	2,071
Loss (gain) on sales of subsidiaries and affiliates securities	—	(315)	(2,788)
State subsidy	(842)	—	—
Decrease (increase) in notes and accounts receivable—trade	(2,150)	(7,070)	(62,566)
Decrease (increase) in inventories	(828)	(9,742)	(86,212)
Increase (decrease) in notes and accounts payable—trade	(1,810)	9,328	82,549
Other, net	(2,775)	(11,246)	(99,522)
Subtotal	79,394	65,938	583,522
Interest and dividends income received	2,130	4,180	36,991
Interest expenses paid	(3,254)	(3,628)	(32,106)
Income taxes paid	(15,766)	(12,294)	(108,796)
Net cash provided by (used in) operating activities	62,504	54,196	479,611
Net cash provided by (used in) investing activities			
Payments into time deposits	(6,505)	(8,231)	(72,841)
Proceeds from withdrawal of time deposits	6,219	8,560	75,752
Purchase of property, plant and equipment	(30,310)	(32,192)	(284,885)
Proceeds from sales of property, plant and equipment	455	2,103	18,611
Purchase of intangible assets	(969)	(1,392)	(12,319)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(114)	(515)	(4,558)
Purchase of subsidiaries and affiliates securities	—	(27,209)	(240,788)
Purchase of investment securities	(971)	(851)	(7,531)
Proceeds from sales and redemption of investment securities	376	465	4,115
Payments for transfer of business	(275)	(338)	(2,991)
Proceeds from subsidy income	842	—	—
Other, net	(950)	662	5,858
Net cash provided by (used in) investing activities	(32,202)	(58,938)	(521,575)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	30,364	9,272	82,053
Increase (decrease) in commercial papers	(4,000)	—	—
Proceeds from long-term loans payable	30,069	44,823	396,664
Repayment of long-term loans payable	(75,576)	(48,022)	(424,973)
Proceeds from issuance of bonds	10,000	20,000	176,991
Redemption of bonds	(8,000)	—	—
Cash dividends paid	(7,585)	(11,376)	(100,673)
Cash dividends paid to non-controlling interests	(1,047)	(1,439)	(12,735)
Net decrease (increase) in treasury shares	(19)	(615)	(5,442)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(578)	(5,115)
Other, net	(1,058)	(690)	(6,106)
Net cash provided by (used in) financing activities	(26,852)	11,375	100,664
Effect of exchange rate change on cash and cash equivalents	(1,892)	(5,653)	(50,027)
Net increase (decrease) in cash and cash equivalents	1,558	980	8,673
Cash and cash equivalents at beginning of the period	15,113	16,671	147,531
Cash and cash equivalents at end of the period	16,671	17,651	156,204

* Yen amounts have been translated, for readers' convenience only, at the rate of ¥113 to US\$1, the approximate rate of exchange on December 31, 2017.

Third-Party Verification



The DIC Group commissioned SGS Japan Inc. to conduct third-party verification of its data for greenhouse gas emissions, discharge of industrial waste and number of occupational accidents (including number of accidents leading to workdays lost).

DIC Group Milestones

110 Years of Achievement

1908 Established as Kawamura Ink Manufactory

Established by Kijuro Kawamura as Kawamura Ink Manufactory; adopts the dragon as its product trademark and begins manufacturing inks.



Dragon product trademark



DIC's founder, Kijuro Kawamura

1915
Commences production of offset printing inks
Becomes one of the first companies to conduct research in the area of offset printing inks and succeeds in producing a viable product in only one year.

1925
Begins production of organic pigments
Develops production method for organic pigments and begins production for its own use, the first step in its evolution as a fine chemicals manufacturer.

1940
Commences production of water-based gravure inks
Amid wartime restrictions on use of volatile oils, develops water-based gravure inks—one of several achievements that would later facilitate expansion into synthetic resins.

1952
Makes full-scale entry into the synthetic resins business
Establishes Japan Reichhold Chemicals Inc., then the second-largest joint venture with an overseas firm in the history of the Japanese chemicals industry, and makes a full-scale entry into the synthetic resins business.



Reichhold Chemicals' San Francisco plant

1957
Enters the market for helmets and other molded plastic products
Enters the plastic products business with the aim of becoming an integrated manufacturer with operations encompassing production of everything from plastic raw materials to finished products.

1962
Changes Company name to Dainippon Ink and Chemicals

Embarks on a new chapter in its history by absorbing Japan Reichhold Chemicals Inc., and changes Company name to Dainippon Ink and Chemicals Incorporated (DIC).



DIC's previous corporate symbol

1968
Commences sales of the DIC Color Guide®
Launches the DIC Color Guide®, which becomes the de facto standard for color selection in numerous industries, bolstering recognition of the DIC name.



DIC Color Guide®

Promotes expansion of printing inks business

Diversifies operations by building on base in printing inks, organic pigments and synthetic resins

Actively introduces technologies from overseas and promotes further diversification

Sustainability Initiatives

1973 Establishes the Environment and Safety Response Department

Creates department under the direct supervision of DIC's president to oversee safety and environmental initiatives (today's Responsible Care Department); creates Environment and Safety Management Regulations and Interim Emergency Countermeasures Department and begins promoting decisive efforts, including the implementation of plant safety inspections.

1990 Opens Kawamura Memorial Museum of Art

Located in Sakura, Chiba Prefecture, adjacent to the Central Research Laboratories; established to exhibit works of art collected by DIC and DIC Group companies; now called the Kawamura Memorial DIC Museum of Art.



1995 Declares intention to uphold the principles of Responsible Care

Takes an active role in the Responsible Care movement since the start as one of 74 founding members of the Japan Responsible Care Council (JRCC); reinforces efforts to, among others, reduce negative environmental impact of operations and lower energy consumption.



2006 Becomes signatory to the Responsible Care Global Charter

Signs the CEO's Declaration of Support for the Responsible Care Global Charter, established by the International Council of Chemical Associations, as befits its status as a member of the global community of fine chemicals manufacturers.



Certification of DIC as signatory to the Responsible Care Global Charter

1970

Enters the multilayered films business

Establishes Crown Zellerbach Packaging Materials Japan Co., Ltd., in a joint venture with Crown Zellerbach Corporation of the United States and Nippon Kakoh Seishi Co., Ltd., and enters the multilayered films business.

1973

Enters the market for LCs

Develops revolutionary high-performance, long-lasting nematic LCs, commencing its evolution into one of the world's foremost manufacturers of LCs.



Nematic LCs

1986

Acquires the graphic arts materials division of Sun Chemical Corporation of the United States

Becomes world's largest manufacturer of printing inks in terms of market share and a leading name in the graphic arts materials business.



Sun Chemical's headquarters

1999

Succeeds in developing 100% soybean oil-based printing ink

Amid rising awareness of environmental issues, develops Japan's first organic solvent-free sheetfed offset ink.

1999

Acquires Coates, the printing inks division of France's TOTALFINA

Establishes presence in India, Central and South America and elsewhere by acquiring the Coates Group from TOTALFINA S.A., France's largest oil company.

2008

Changes Company name to DIC Corporation

Marks centennial anniversary by changing Company name to DIC Corporation and adopting a new corporate symbol.



DIC's new corporate symbol

2009

Establishes DIC Graphics Corporation

In October 2009, establishes a joint venture with Dai Nippon Printing Co., Ltd., subsidiary The Inctec Inc. and integrates its domestic printing inks business with the printing inks business of The Inctec.

2010

Develops groundbreaking series of green pigments for LCD color filters

Develops the G58 series of green pigments for use in color filters for LCDs, which deliver marked increases in brightness and contrast compared with previous products and contribute substantially to reduced energy consumption by LCDs.

2015

Completes reconstruction of corporate headquarters in Nihonbashi

In May 2015, completes the reconstruction of its corporate headquarters—the DIC Building—in Nihonbashi, Tokyo, the role of which was expanded to include oversight of the global DIC Group.



DIC Building

2016

Launches DIC108 medium-term management plan

Sets forth a growth scenario aimed at realizing sustainable growth and outlines what DIC must do between now and fiscal year 2018.

2016

Introduces branding program

Introduces new branding program based on the Group's "Color & Comfort" brand slogan, which sets forth three corporate values, and in October airs a new television advertisement.



Brand advertisement for television advertisement

2017

Enters capital and business alliance with Taiyo Holdings

Concludes capital and business alliance with Taiyo Holdings Co., Ltd., one of the world's leading manufacturers of solder resist for PWBs.

Seeks to advance globalization of core businesses and diversify into new areas

Takes steps to advance environmental protection and expands global presence

Prepares for a new phase of growth

2007

Launches CSR program

Begins promoting CSR initiatives; identifies fulfilling its responsibilities as a member of society through its business activities and contributing to the evolution of society as the cornerstones of CSR.

2010

Joins United Nations Global Compact

In December 2010, becomes a participant in the United Nations Global Compact (UNG), with the aim of maintaining its reputation as a socially responsible corporate entity.

WE SUPPORT



2014

Changes designation to "sustainability"

Clarifies its overall policy of achieving sustainability in a manner that takes into account, among others, the environment, ecosystems and socioeconomic issues, and changes the designation used across its program from "CSR" to "sustainability."



In-house poster promoting sustainability initiatives

2015

Selected for inclusion in the Dow Jones Sustainability Indices Asia Pacific Index

Included for the first time in the DJSI Asia Pacific Index, a global family of indices for socially responsible investing and a benchmark of global sustainability. Included again in 2016.

MEMBER OF

Dow Jones Sustainability Indices

In Collaboration with RobecoSAM

(Contact)

DIC Corporation

Corporate Communications Dept.
Sustainability Dept.

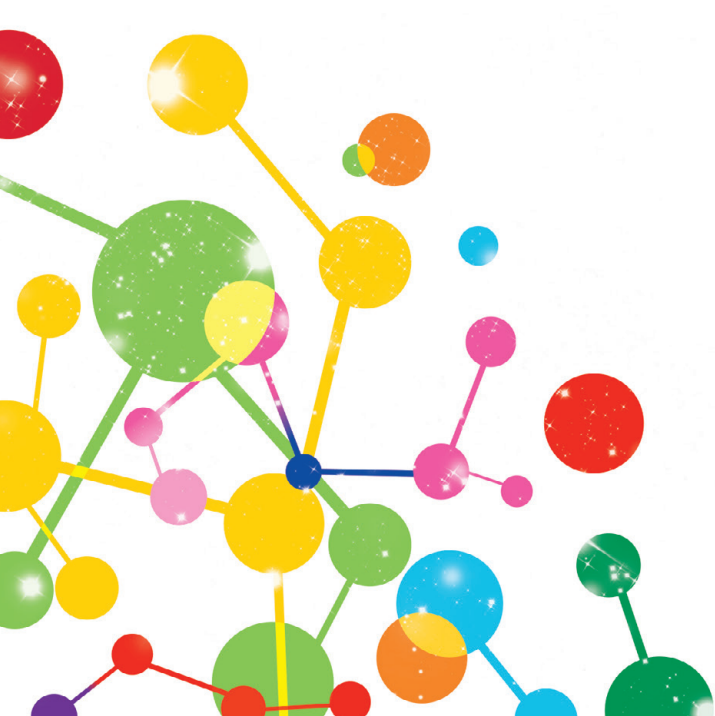
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Innovation through Compounding
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