

April 25, 2025

Company name:	Dai Nippon Toryo Co., Ltd.
Name of representative:	Takayuki Sato, Representative Director and President (Securities code: 4611 TSE PRIME)
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Notice Concerning the Publication of Investigation Report on Inappropriate Acts of DNT Group

Dai Nippon Toryo Co., Ltd. (hereinafter “DNT”) sincerely apologizes for the significant inconvenience and concern caused to its business partners and other related parties concerning the inappropriate acts at its consolidated subsidiary, Okayama Kako Co., Ltd. (152-6 Nishi, Kibichuo-cho, Kaga-gun, Okayama Prefecture, hereinafter, “Okayama Kako”) as announced on October 26, 2023, and the temporary suspension of JIS mark labels” announced on November 29, 2024.

We hereby notify that we have received the results of the investigation conducted by the Special Investigation Committee which was established on October 27, 2023, consisting mainly of external lawyers, and resolved at the Board of Directors to publish the attached investigation report (the “Report”) after compiling the results. We apologize for the delay in publishing the Report until today due to prior consultations with relevant authorities and business partners.

1. Investigation report

In view of the significance of the inappropriate act at Okayama Kako, the Board of Directors has resolved to establish the Special Investigation Committee consisting mainly of external lawyers. The Special Investigation Committee has clarified the facts surrounding Okayama Kako’s inappropriate acts, analyzed the causes, and considered measures to prevent recurrence, while conducting surveys and digital forensics investigations to uncover similar inappropriate acts.

We have determined that publishing the Committee's findings in the original text could harm the interests of our stakeholders. To fulfill our accountability while respecting their interests, we have compiled the Report at our sole responsibility for the following purposes.

- A business partner cannot be identified from business partner information
- An individual cannot be identified from personal information
- Clearly indicate if the survey was conducted by DNT

2. Overview of inappropriate acts

Main inappropriate acts identified by DNT are as outlined below:

Type of acts	Details	Note
Falsification	As for JIS certified products, in the case where a product did not meet the internally established standards, some products were shipped upon falsifying the inspection data to stay within the range of inspection standards.	(Announced in the “Inappropriate act at a consolidated subsidiary and temporary suspension of JIS Mark Labels” dated October 26, 2023)
Out-of-standard shipment	As for JIS certified products, in the case where a product did not meet the internally established standards, some products were shipped as those within the threshold standard range.	(Announced in the “Inappropriate act at a consolidated subsidiary and temporary suspension of JIS Mark Labels” dated October 26, 2023)
Inadequate outsourcing management	As for hardeners manufactured by an outsourced manufacturer, some products were shipped with JIS mark while violating DNT’s internal rules.	(Announced in the “Notice Regarding Temporary Suspension of JIS Mark Labels” dated November 29, 2024)
	Manufacturing of JIS certified products (hardeners) was outsourced to a manufacturing company which was not filed to the Japan Paint Inspection and testing Association and such products were shipped with JIS mark certification.	(Announced in the “Notice Regarding Temporary Suspension of JIS Mark Labels” dated November 29, 2024)
Change of inspection conditions and method	A case in which products were shipped after undergoing inspections that differed from the methods specified in the standards set by a specific customer	—
	A case in which products were shipped without complying with the internally established inspection procedures and conditions in the product inspection	—
Inappropriate replacement	As for products relevant to standards set by a specific customer, some samples of a product lot were replaced so that they can easily pass the inspection.	—

3. Causes

Please find below the cause analysis of the inappropriate acts received from the Special Investigation Committee.

Category	Causes	
Relatively direct causes related with each inappropriate act	1	Pressures to meet delivery deadlines and an inadequate system to address late shipment
	2	Neglecting coating property standards and considering products are acceptable unless customers have problem with their use
	3	“Shortcut action” and blindly following the precedent
	4	Strict setting of process inspection standards, frequent use of exceptions to allow shipment of out-of- standard products
	5	Prioritizing sales and performance and easily accepting inspection requirements that are difficult to implement
	6	Manual tasks such as recording inspection data and entering data into the system
	7	Discrepancies between the submitted standards of JIS certified products and process inspection standards, and misunderstandings within the company
Corporate climate, cultural causes, and causes related to organizational structure	8	An atmosphere where superiors and other officers and employees are not approachable for discussion
	9	Shifting responsibility to others among divisions and insular mindset
	10	Lack of check-and-balance function in the inspections conducted in the Production Division
	11	Personnel shortage, imbalance between workload and staffing levels, insufficient capital investment
Causes in terms of governance, and internal control	12	Insufficient understanding of the situation at production sites, etc. by the management
	13	Dysfunction of the first-line management (risk management through daily monitoring within business divisions)
	14	Lack of initiatives by the second-line management (cross-divisional risk management by the Risk Management Division)
	15	Lack of initiatives by the third-line management (independent assessment by the Internal Audit Division)

4. Recurrence prevention

4. 1 Recommendations

DNT has received recommendations for the measures to prevent recurrence from the Special Investigation Committee.

Category	The Committee's recommendations to prevent recurrence
Reform organizational climate and culture, and implement specific initiatives to support them	Raise quality awareness and demonstrate management's leadership
	Establish an organizational system responsive to late shipment, etc.
	Clarify and optimize internal rules on product standard and quality control
	Continue education to never let the reform awareness fade away, strictly handle violation cases, and share information
	Create a work environment easy to report and consult, and build an organization and HR system to support this
	Automatic recording of inspection data
	Optimizing the management of standards and other initiatives
	Necessity to conduct follow-up investigations, and appropriate personnel measures
Establish organization for quality risk control	Separate the Quality Control Division from the Production Division, change the department conducting inspections and increase personnel thereof
	Strengthen interdivisional cooperation and clarify responsibilities for quality control
	Cross-divisional monitoring at the Quality Assurance Division
	Strengthen the Internal Audit Division
Strengthen governance of the entire DNT Group and appropriately operate the risk management system	Governance reform at the headquarters management
	Establish a three-line management model and assess the effectiveness
	Understanding the voices of the front lines by the management
	Improve the operation of the whistleblowing system

4. 2 Recurrence prevention policy

DNT will promote measures to prevent recurrence based on these recommendations throughout the Group, and the Board of Directors will manage and supervise their progress.

The Committee's recommendations	Implementation policy, etc.
Raise quality awareness and demonstrate management's leadership	<ul style="list-style-type: none"> ● The management will take the initiative in reviewing and re-communicating the DNT Group's "definition of quality." ● At present, the management has internally announced its commitment in the company newsletter to ensure all the DNT Group employees share the common understanding that "ensuring quality is the top priority."
Establish an organizational system responsive to late shipment, etc.	<ul style="list-style-type: none"> ● Systematically eliminate pressure to meet delivery deadlines by identifying and improving issues in the production planning and inventory management systems

The Committee's recommendations	Implementation policy, etc.
Clarify and optimize internal rules on product standard and quality control	<ul style="list-style-type: none"> ● Eliminate overly strict rules and clarify ambiguous standards at each stage of design, production, and inspection ● At present, we have completed a review of our quality control-related regulations.
Continue education to never let the reform awareness fade away, strictly handle violation cases, and share information	<ul style="list-style-type: none"> ● Raise awareness of quality compliance along with taking strict measures against violations ● For all the officers and employees of the DNT Group, quality compliance training is being conducted and we will continue such training.
Create a work environment easy to report and consult, and build an organization and HR system to support this.	<ul style="list-style-type: none"> ● Create a climate that is easy to report through personnel exchanges, interdivisional exchanges, and awareness-raising among managers
Automatic recording of inspection data	<ul style="list-style-type: none"> ● Reduce opportunities to commit fraud by promoting automated measurement and data collection ● At present, we have introduced a system for automatically entering inspection data at some production sites.
Optimizing the management of standards and other initiatives	<ul style="list-style-type: none"> ● Appropriately manage the submission details to certification bodies and agreements with customers, and reflect them in our internal standards
Necessity to conduct follow-up investigations, and appropriate personnel measures	<ul style="list-style-type: none"> ● Conduct follow-up investigations as necessary and take appropriate measures in accordance with the internal rules for each employee involved in inappropriate acts
Separate the Quality Control Division from the Production Division, change the department conducting inspections and increase personnel thereof	<ul style="list-style-type: none"> ● Build an appropriate organization to prevent improper interference in the Quality Control Division and enable a check and balance by a third party ● At present, we have separated the Quality Control Division from the Production Division and placed it within the Quality Assurance Division directly under the President. Furthermore, with the transfer of the Quality Control Division, we have increased the number of inspectors at production sites.
Strengthen interdivisional cooperation and clarify responsibilities for quality control	<ul style="list-style-type: none"> ● Review our personnel system to correct the shifting of responsibility between divisions and sectionalism
Cross-divisional monitoring at the Quality Assurance Division	<ul style="list-style-type: none"> ● The Quality Assurance Division will monitor business operations in order to serve as a check-and-balance function on each production site and other departments.
Strengthen the Internal Audit Division	<ul style="list-style-type: none"> ● Increase the number of personnel in the Internal Audit Division to strengthen audit efficiency ● At present, we have assigned personnel experienced in quality control to the Internal Audit Division.

The Committee's recommendations	Implementation policy, etc.
Governance reform at the headquarters management	<ul style="list-style-type: none"> Promote governance reforms at the management level to strengthen functions for preventing, detecting, and responding to quality issues At present, we have established the Quality Assurance Meeting where the management deliberates on important risk information and responses to violation.
Establish a three-line management model and assess the effectiveness	<ul style="list-style-type: none"> Regularly assess the effectiveness of measures taken to prevent recurrence and identify items to be improved and make a countermeasure for the items in order to detect internal control issues early and improve it
Understanding the voices of the front lines by the management	<ul style="list-style-type: none"> Establish a system that enables both the management and front-line employees to accurately understand mutual expectations and concerns, thereby eliminating problems caused by miscommunication At present, dialogue activities (round table talks) between the management and front-line employees are being conducted.
Improve the operation of the whistleblowing system	<ul style="list-style-type: none"> To strengthen the whistleblowing function, we will disseminate again the contact point for whistleblowing across the DNT Group.

5. Disciplinary actions against officers

We take such inappropriate acts seriously and implement the following disciplinary actions against the officers concerned to clarify management responsibility.

Name	Title	Disciplinary actions
Takayuki Sato	Representative Director and President	Voluntary return of 50% monthly remuneration for 4 months
Tatsuhiko Nagano	Director, Managing Executive Officer	Voluntary return of 50% monthly remuneration for 3 months
Motohiro Yamamoto	Director, Executive Officer	Voluntary return of 40% monthly remuneration for 3 months
Akihiro Miyake	Director, Executive Officer	Voluntary return of 30% monthly remuneration for 3 months
Masayuki Nakatani	Director, Executive Officer	Voluntary return of 15% monthly remuneration for 2 months
Akira Fujiwara	Director, Executive Officer	Voluntary return of 15% monthly remuneration for 2 months

6. Impact

We will promptly disclose any information about the matter, if it arises in the future, that may affect the business performance of the DNT Group.

7. Apology

We sincerely apologize for the significant inconvenience caused to our business partners and other related parties as a result of a series of inappropriate acts. We will work together as a group to prevent recurrence and will make utmost effort to restore the trust of our customers.

8. Inquiries

Please contact below for any inquiries on this matter.

Dai Nippon Toryo Co., Ltd. designated line at 0120-197-962 (reachable only in Japan)

(Note) This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.