

To Our Shareholders

Yoshitoshi Kitajima President

Creating what everyone will take for granted in the future

As we go about our business, we at DNP have always considered how we can contribute to society by asking ourselves, "What can we do to help society? How can we make society better?" Japanese society is currently in the process of recovering from the massive damages caused by the Tohoku-Pacific Ocean Earthquake. At the same time, we face a mountain of ongoing problems at the global level, including stagnant economies and environmental and energy concerns. We believe that the path to growth for both society and DNP lies in squarely confronting each one of these problems and creating new value by offering fitting solutions.

DNP was established in 1876, based on the entrepreneurial spirit of its founders and the most advanced technology of the time — letterpress printing. Ever since, DNP has continued to generate innovative mechanisms and original new products and services that never existed before. The company's original motto, "Run a civilized business," expressed the strong desire of DNP's founders to contribute to the development of society as well as their belief that by contributing to society, DNP, too, would be able to grow. That desire has been passed on to us as what we call "the DNP spirit."

DNP's technologies and expertise were instrumental in the creation of many products that are taken for granted today, such as weekly magazines, electronic dictionaries, smart cards and holograms. DNP products are indispensable to the manufacturing of many items that we use as an integral part of our daily lives, including advanced packages that safely guard food

products, wallpaper that is indistinguishable from natural wood grain, scratch-resistant floor coverings, and smart phones with thin, light liquid crystal displays. Our insatiable appetite for challenge has driven us to continually develop our strengths—mainly, innovative printing and information technologies—and apply them to the creation of new things that people come to take for granted.

Most of DNP's business to date has been focused on satisfying the needs of corporate customers, i.e. "business to business" or B to B. In the future, however, we believe it will be important for DNP to play a more direct role in identifying and solving problems on behalf of consumers and society, not only in Japan but throughout the world.

Simply put, the new products and services that we strive to develop are solutions to problems faced by businesses, consumers and society. By providing precisely what individuals and society are seeking, we intend to increase our own profitability and achieve sustainable growth despite today's harsh business environment.

"Create what everyone will take for granted in the future."

As we work steadily to fulfill this mission, society places greater trust in DNP, which increases our corporate value.

Yoshitoshi Kitajima
President





Interview with Management

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President Kitajima Explains How DNP Is Working to Achieve Sustainable Growth

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What do you think of DNP's performance in the past fiscal year?

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In the fiscal year ended March 2012, we took a fresh look at the business activities we had been engaged in so far, and decided to change direction significantly in order to achieve growth. So we can say that this past year was a turning point. Most Japanese businesses became aware of weak links in their international supply chains as a result of the Tohoku-Pacific Ocean Earthquake and the flooding in Thailand, and were forced to reorganize their systems in light of the need for business continuity plans. At DNP, we also set about to thoroughly reform our business structure, to develop new businesses with an eye toward what consumers want and need as well as what is good for society, and to expand our business from a global point of view.

When we look back at the previous fiscal term, we see that the Japanese economy gradually recovered from the effects of the Tohoku-Pacific Ocean Earthquake, but overall the year was still very tough because of factors like the economic slowdown overseas and higher crude oil prices. The printing industry also continued to struggle; our challenges included the slow recovery of advertising budgets, which were cut in the aftermath of the earthquake, sluggish personal spending, and lower unit sale prices.

In particular, LCD color filters and other display products were the object of major production adjustments due to the worldwide slump in sales of LCD televisions. Some of our major customers pared their business down significantly and changed their operating policies, which caused a sharp deterioration in DNP's business environment. In response to this situation, we hurried to shift our focus in two directions: toward the small- and medium-size products used in wildly popular smart phones and tablet PCs, and toward developing new products, especially those aimed at higher-resolution displays. As part of a thorough structural overhaul, we consolidated production bases, reevaluated our color filter production equipment based on projected future cash flow, and posted some 24.7 billion yen in impairment losses.

At the end of the term, consolidated net sales for the fiscal term amounted to 1,507.2 billion yen (down 5.2% from the previous term), consolidated operating income was 34.0 billion yen (down 49.8%), and consolidated

ordinary income fell 41.3% year on year to 36.8 billion yen. We posted a consolidated net loss of 16.4 billion yen for the term, compared to net income of 25.0 billion yen a year earlier.

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What are DNP's medium- and long-term policies aimed at achieving growth?

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The overseas economic slowdown is likely to affect even emerging markets. In Japan, we expect several negative factors to continue to be of concern, including deflation, higher unemployment, unstable electric power supplies, and higher electricity rates. Despite this harsh business environment, our "P&I Solutions" business vision calls for the achievement of continuous growth and increasing corporate value in the medium and long terms. The idea is that if we use our printing technologies, information technologies, and our other skills and strengths to solve problems faced by businesses, consumers and society, society and DNP can grow and develop together.

Based on this vision, we have identified three strategies that we believe will lead us to concrete results: (1) development and promotion of new products and new businesses, (2) acceleration of global expansion, and (3) thorough structural reform of business operations.

We have already generated new businesses in the energy and life science fields by expanding on our printing technologies. As society becomes more digitized and more multi-functionalized, we feel certain that there is limitless potential for developing and applying printing technologies.



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Please explain the three growth strategies you just mentioned.

First of all, in what direction do you intend to take "development of new products and new services"?

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Amidst all the big changes that are taking place in the world these days, we feel it is difficult for companies and consumers to foresee what issues they will face and how to go about solving their problems. Since our corporate vision is to be a provider of solutions, it is important for us to quickly notice all types of changes, propose hypotheses, and stay one step ahead of businesses and consumers in making suggestions.

When we make a point of interacting with society and markets and looking at the world from our own standpoint as consumers, we get an understanding of societal changes that will increase the accuracy of our hypotheses and proposals, and lead to effective solutions for businesses and consumers. Not just sales and project planning departments, but manufacturing, research and development, and every part of the entire DNP Group will emphasize the customer's point of view as we develop new products and services, review existing businesses, and establish and quickly launch new business models.

New products and services that make the most of our existing businesses

DNP's Information Communication segment engages in the optimal expression of information using diverse media formats in line with the needs of corporate clients and consumers, and provides a wide variety of solutions that are integral to our customers' business processes. The segment is building up new types of businesses, including products and services that take advantage of our strong foundation in information security, "hybrid production solutions" that combine paper and electronic media, and a "hybrid bookstore network."

The Lifestyle and Industrial Supplies segment provides products and services that precisely meet the diverse needs of companies and consumers, including products designed with universal design principles and/or environmental conservation in mind. We view areas like energy and life science, where there is strong social need, as suitable areas for DNP to start new businesses, through which we will develop advanced and original products.

Although our Electronics segment faces a harsh business environment, we will continue to respond to rapidly changing markets and customer needs by pursuing thorough cost reductions and developing advanced products backed by our strength in world-class technologies like patterning and microfabrication.

Building up businesses that solve social problems

In 2011, Japan did not have enough electric power to meet demand, so we were forced to set our air-conditioners to higher temperatures during the peak of the hot summer. At that time, we saw many examples of people turning crisis into opportunity, for example by developing energy-efficient household appliances or offering cooling products.

As I said earlier, creating new products and services that are good for society is one of DNP's priorities. So in the future, we will also concentrate on developing socially oriented businesses related to themes like environment, energy, education, aging society, and universal design.

Promoting research and development aimed at business creation

At DNP, we have expanded our business by developing and applying printing technologies. We intend to work harder than ever at the development of new products and services, which will continue to be DNP's mainstay. In light of the rapid changes that mark today's society, we attach special importance to research and development aimed at creating new businesses that provide clear-cut solutions based on approaching problems from consumers' point of view. We will keep thinking outside the box and working to generate new businesses through products, services and innovative business models based on fresh ideas, and we will take care to properly manage and make use of the intellectual property that is created through these efforts.



What are the aims of your next strategy, "global development"?



Ever since we opened an office in Hong Kong in 1964, we have been actively developing our overseas business with the aim of meeting local demand. Our focus as we promote DNP's global strategy is to "make the most of our strengths." We are not just going overseas because that's what other companies are doing. What's important is our desire to use DNP's strengths to solve problems faced by businesses and consumers not only in Japan, but all over the world. In recent years, DNP products and services have drawn higher praise than ever in overseas markets, and our business has become brisk throughout the world. In order to further accelerate this trend and successfully develop our overseas business, in April 2012 we created a new organization to oversee DNP's overseas businesses.

Under this new framework, we aim to optimize product manufacturing, sales, and development

according to the needs of each region. Optimization of qualities and functions in line with the needs of various localities is particularly important in categories like packaging, decorative materials, information media supplies, and other businesses handled by our Lifestyle and Industrial Supplies segment. Since DNP has worked hard to provide the high degree of convenience and comfort required for satisfying the exacting demands of Japanese consumers, we can provide products that consumers all over the world really need.

In 1972, DNP's Packaging Operations established a production base in Indonesia amid expectations for growth in Southeast Asian markets. Ever since, we have continued to work at providing appropriate solutions for local markets, and have increased our share of sales in those markets. DNP Indonesia has grown to be Indonesia's No. 1 packaging company. We intend to build on our success there by opening another plant in Vietnam in April 2013. We aim to expand our business by providing high-quality products to global companies in response to growing demand for packaging for foods and household goods.



Interview with Management
How DNP Is Working to Achieve Sustainable Growth

Q Your third strategy is structural reform of operations. How are you going about that?

A We intend to boost efficiency and minimize costs by reviewing our business processes in order to establish strongly profit-oriented production systems. In the fiscal year through March 2012, we worked on improving profitability through such means as posting impairment losses—largely on color filter production equipment—and consolidating operating locations.

For example, in April 2011 we combined divisions that handled manufacturing and sales in Japan's Chubu region (centered around Aichi Prefecture) to form DNP Chubu Co., Ltd. Our aim is to improve productivity, in addition to expanding our business by responding meticulously to local needs and further strengthening ties to local communities. In October 2011, we consolidated four Group companies that handle prepress operations in order to streamline plate making operations, even out workflow between locations, consolidate redundant functions, and improve productivity through sharing of technologies and expertise.

In addition to the Production 21 activities that we have continued since 2002, we will work to boost product quality and cost competitiveness by building efficient, waste-free production systems based on the concept of "overall optimization," i.e. smoothing the flow of operations between business processes and units, at every step from order intake to delivery. As part of this effort, during the fiscal year through March 2012 we established a production control center for the Information Communication segment, and another for Packaging operations, in order to optimize production locations so as to make the most effective use of DNP's production equipment throughout Japan.

We also adopted the "DNP Group Basic Code for Disaster Response" and began implementing disaster prevention and preparedness measures on a daily basis in order to make the DNP Group as "disaster-proof" as possible. After the Tohoku-Pacific Ocean Earthquake, we reviewed our business continuity plans (BCPs) and worked to minimize the effects a disaster might have on DNP's business operations by redistributing production bases in Japan and overseas, and by organizing logistics and alternative producers with an eye toward disaster-proofing our overall supply

chain. In order to deal with power shortages and higher electric power costs, we took steps like reducing power consumption wherever possible and installing in-house power generators.

Q How do you plan to return profits to shareholders?

A We view the return of profits to shareholders as an important management policy. Our basic approach is to distribute profits to shareholders through stable dividend payments, with consideration for business performance, dividend payout ratio, and other relevant factors. At the same time, we support future business development by applying retained earnings to the enhancement of our financial constitution and strengthening of our management base.

We allocate retained earnings to fund investment in research and development of new products and technologies, capital investment in the development of new businesses, and strategic alliances and M&As.

We believe that these types of investment help build corporate value in the medium and long terms, and ultimately help us return profits to shareholders.

DNP values *taiwa** with all of our various stakeholders. In order to stimulate livelier *taiwa* through which we can discover and resolve new issues, we disclose appropriate information in a timely fashion and work hard to achieve accountability.

Furthermore, we view corporate governance as an important management responsibility. We intend to build, operate and maintain monitoring systems that adequately support accurate, appropriate, and quick decision-making and business execution.

In order to earn the trust of our shareholders and all other stakeholders, the management of DNP will continue to increase the Group's corporate value through our business activities. We look forward to your continued support and cooperation.

* *Taiwa* is a process that entails identifying problems and finding solutions through the exchange of viewpoints and ideas.