

“Today’s Innovation is Tomorrow’s Basic”

DNP Increases Corporate Value by Contributing to Society’s Development

“Today’s Innovation is Tomorrow’s Basic”—this is how DNP expresses its firm commitment to continue contributing to the future development of society.

Contributing to society means solving social problems in a variety of areas, including environment and energy, education and training of the next generation, medical care and health, food and agriculture, and improving quality of life in our aging society. DNP is already working on the innovations that will allow us to accomplish our mission.

Many of the problems that we face today cannot be solved by existing methods, so if we get caught up in old methods, we won’t be able to find the answers we need.

We must first sharpen our awareness of the fact that we are the ones who must take the initiative and actively take on the job of solving problems. DNP has always tried to respond

to the needs of its corporate clients. However, amid dramatic changes in the global business environment and changes in consumers’ awareness, it has become more difficult for companies to identify for themselves the problems that they need to solve. That is why it has become important for us to take the lead and actively get a grasp of the status of society, organize its problems, analyze them, and chart a course toward resolving them.

When we take the lead and set out to solve society’s problems, it is important to be sure that we are moving in the right direction. We must always confirm that we are viewing things from the consumer’s point of view and from society’s point of view. We must look within our own country and outside as well, and always steer DNP in the proper direction.

Information Communication, which includes Books and Magazines and Commercial Printing,



is the principal business in which we have engaged since our founding. Amid a global trend toward digitization, the information media that consumers handle have undergone great changes. In response to these changes, in July 2014 we will unify the Information Communication segment's sales, planning, and manufacturing units throughout Japan. We intend to reconstruct this segment in order to increase its efficiency and strengthen its revenue base. DNP's Lifestyle and Industrial Supplies segment provides products and services that are vital to consumers' daily lives. In order to promote its global development, we will enhance its manufacturing bases in Southeast Asia and North America. DNP already holds the top share of world markets for many products. We respond precisely to the needs of people in each country and each region in order to offer them things that they take for granted—things they

feel they cannot live without. DNP's Electronics segment is now reaping the benefits of the cost structure reforms it has been implementing for the past few years. The segment will concentrate on technological innovation and more efficient production, with a focus on developing new products.

As we ourselves also evolve, we will continue to innovate "Tomorrow's Basic." By doing so, we will contribute to the development of society, and we will do our very best to earn the trust of our shareholders and other stakeholders.

We ask our shareholders for their continued guidance and support as we move forward.

Yoshitoshi Kitajima
President

A handwritten signature in black ink, reading "Y. Kitajima".

Management Interview

Increasing Corporate Value through “Today’s Innovation is Tomorrow’s Basic”

Q ■ What do you mean by “Today’s Innovation is Tomorrow’s Basic”?

President Yoshitoshi Kitajima: DNP’s management concept is to contribute to the development of society. When we think about social contribution, it means solving society’s various problems. Consumers also want to have products and services that solve their problems so readily available that they can come to take them for granted.

They want to be able to count on finding books and magazines on bookstore shelves, and to feel perfectly secure using smart cards to pay for everyday purchases. In addition to supplying hygienic, easy-to-use packaging, highly aesthetic wall coverings, soil-resistant, scratch-resistant floor coverings, photo prints and albums, DNP provides electronic components that are indispensable to the manufacture of smartphones and tablet PCs.

We want to continue making products and services that enrich people’s lives to the extent that they cannot imagine life without them. That’s what we mean when we say “Today’s Innovation is Tomorrow’s Basic.”



Q ■ Are you satisfied with the progress you are making toward achieving that goal?

Kitajima: That’s an interesting question. Since there are innumerable issues to address, I don’t suppose we will ever be able to say we have reached our goal. We are currently implementing a variety of measures aimed at setting ourselves on a track that will enable us to continue creating “Tomorrow’s Basic.”

We have been reforming our business structure with an eye toward starting new businesses, and we are also implementing cost structure reforms to strengthen our revenue base. These reforms are progressing nicely.

Q ■ What are some of the specific measures you are taking?

Kitajima: Among the business structure and cost structure reforms that we are implementing is the construction of a business base in the field of information services. In order for a company to provide high-added value products or services today, it must be able to reflect consumers’ opinions into what it has to offer. It is extremely important to be able to safely use “big data,” including purchasing trends and characteristics of members who are registered with a particular company, etc., for marketing and other purposes. In December 2013, we opened the DNP Kashiwa Data Center to serve as our infrastructure for that purpose. We equipped it with very strong protections against data leakage, earthquakes, and fire and adopted the cloud technology of Nihon Unisys, Ltd., with whom we have capital ties. We also connected the new data center to the existing data centers of both DNP and Nihon Unisys, thereby creating one of Japan’s largest service networks.

Q ■ What other new initiatives has DNP begun?

Kitajima: In Lifestyle and Industrial Supplies, we have been focusing on strengthening our production framework with an eye toward global markets. For example, in May 2013 we established a new packaging plant in Vietnam. DNP’s Packaging Operations have focused on Indonesia since we established a plant there in 1972. Today we hold the top share of that market for packaging products in many fields, including food products and household goods. We intend to take advantage of our track record in Southeast Asia and our new production base in Vietnam—

a location that is attracting attention as a logistics base for the Indochina Peninsula—to provide high-added value solutions for Japanese-affiliated companies expanding overseas and for other global companies.

In Imaging Communication, we completed construction of a factory in Malaysia in December 2013, in order to produce dye-sublimation thermal transfer printing media (color ink ribbons and receiver paper) to meet growing Southeast Asian demand for printing ID photos and other pictures. In the US, we responded to growth in the market for barcodes used in manufacturing and logistics by augmenting the production equipment at our thermal resin-type transfer printing media plant in Pittsburgh in May 2013.

Our Electronics segment has been working to improve revenues amid a dramatically changing market by reviewing its product lineup, consolidating manufacturing bases, and reconstructing its organizational framework.

By Combining the Strengths of Our Various Businesses, We Will Generate Even More Value

Q. DNP is involved in a wide variety of businesses. Please explain your strategies for future growth.

Kitajima: As I've said before, we believe that generating the innovations that will become "Tomorrow's Basic" will lead to medium- and long-term growth. In order to achieve that, we analyzed problems from society's point of view and identified four areas in which DNP can make use of its strengths to offer solutions. DNP has already begun actively engaging in business activities in these areas, which are: information distribution, health and medical care, environment and energy, and comfortable living.

However, we must not let ourselves be caught up in our existing business framework as we approach these themes. DNP's printing business contains three segments that engage in different types of business. They have all withstood dramatic changes in their business environment and managed to achieve stable growth by expanding on their various areas of specialization. In the future, however, they will have to reach beyond the boundaries of each unit and combine their various strengths in order to make use of their collective capabilities.

Q. Could you give an example?

Kitajima: Earlier I mentioned the new DNP Kashiwa Data Center. Since it serves as a basis for providing information services, you might think that it belongs only to the Information Communication segment. But it also addresses the need for better communication between consumers and companies in all kinds of industries. In all likelihood our Lifestyle and Industrial Supplies segment will be using the data center to provide services for customers who manufacture foods, beverages, decorative materials or residential facilities, and for customers involved in photo printing. The same is true for our Electronics segment, which is closely related to electronic device manufacturers.

Of course, DNP's Business Process Outsourcing (BPO) operations also serve clients in a wide variety of industries, so we expect the data center to be useful in a wide variety of ways.

Q. It's important to use management resources effectively, isn't it?

Kitajima: Absolutely. The entire DNP Group is currently working on overall optimization. This includes optimal placement of human resources and reviewing our organizational structure.

As an example, in April 2014 we merged the business unit in charge of products like display components and semiconductor photomasks with the business unit in charge of surface films and other optical films used in liquid crystal displays. Both of these business units serve the same main markets, such as electronic devices. Now that they can combine their technologies and expertise, we plan to accelerate the development of touch panel-related products and other new products.

Here is another example, concerning commercial printing, business forms, and packaging. In response to changes in consumers' values and lifestyles and to globalization and progress in information technology, we implemented a nationwide organizational restructuring in July 2014 with two goals: to provide the same level of service to customers throughout Japan without limitation by time or space, and to improve profitability and capital efficiency.

Q. What kinds of new products, new services, or new businesses are you developing?

Kitajima: In the development of new products and services, too, it is most important that we generate new strengths by combining our various existing strengths. We should be able to respond to future demand for smart houses and smart cities by combining products and technologies from various fields—perhaps components of photovoltaic cells and lithium-ion rechargeable batteries from our energy-related business with optical films or residential interior or exterior materials, for example.

Aside from that, in July 2013 DNP Fine Chemicals Utsunomiya Co., Ltd. completed construction of its new plant, where it is manufacturing products like active pharmaceutical ingredients and functional materials that use organic synthesis technologies, which represents a new area of challenge for DNP. These functional materials transcend the boundaries of our existing business units since they are used for both environment and energy applications, and as electronic materials for the display components field. Regarding DNP's existing production of active pharmaceutical ingredients and intermediate agents, we intend to build highly reliable production facilities that meet the quality assurance standards of all the countries where we do business and to improve our cost competitiveness by optimizing chemosynthetic processes.

In the life science arena, also, we aim to use our image processing technologies to offer cell movement tracking and the world's first analysis of 3D MRI images, and to apply technologies like patterning and mass production to offer new products and services in the field of regenerative medicine.

We Will Increase the Precision of Our Solutions by Adopting the Consumer's Point of View and Society's Point of View.

Q. It seems that DNP has become more active in the “B to C” (business to consumer) sector.

Kitajima: Our society is now undergoing enormous changes. These changes are occurring quickly and on a global scale, which makes it difficult to discern what

problems need to be solved. Rather than continuing to respond only to our corporate clients' needs, i.e. as a “B to B” (business to business) enterprise, we have to have a solid awareness of the consumer who is our corporate clients' client. That is why each member of DNP works hard to “take the consumer's point of view” and respond proactively, with sensitivity to social changes.

We are also focusing on actively developing our own “B to C” enterprises through which we interact directly with consumers, like our “honto” hybrid bookstore network, “Elne” online customer loyalty point service, “Receipi!” household budget-tracking application and “DreamPages” photo print production service.

Q. Isn't it difficult to take the consumer's point of view?

Kitajima: We ourselves are consumers who live everyday lives, so we can look at DNP's business from a variety of perspectives.

In order to get a better grasp of consumers' point of view, in 2013 we established two venues for direct communication with consumers, one in eastern Japan and one in western Japan.

In January 2013, we established Communication Plaza “dot DNP”, our experiential showroom in Tokyo's Ichigaya district, to enable visitors to experience reading electronic books and to become familiar with products like digital photos and digital picture books. Now we have many fans coming back for repeat visits, and we have received a great deal of feedback regarding electronic books and other topics.

In April 2013, we opened a communication cafe called “The Lab. CAFE Lab.” within Knowledge Capital, a core facility of Grand Front Osaka. Knowledge Capital is a cross disciplinary facility where many corporations, academic institutions, and other entities pursue joint research that transcends any one particular area. As one of the supporters of Knowledge Capital, DNP is working hard to generate new products and services in collaboration with other industries.

Q. Many people are talking about the importance of “ESG”—environmental, social, and corporate governance-related issues.

Kitajima: Concerning the environment and society, it is certainly important to create a sustainable society that exists in harmony with nature. DNP built its own environmental management system. We work actively at

initiatives like preventing global warming, aiming for zero emissions, preserving biodiversity, exercising strict caution in the handling of volatile organic solvents and other chemical substances, and green purchasing.

In the fiscal year ended March 2014, DNP calculated its Scope 3 emissions, including not only emissions from our own manufacturing processes, but also indirect greenhouse gas emissions occurring throughout our supply chain—both domestic and overseas—and began taking action to reduce greenhouse gas emissions on a global scale. We also established goals for water usage in our own manufacturing processes and began taking initiatives aimed at using less water. The use of paper for printing has a major impact on the Earth's ecosystems. DNP established paper procurement guidelines aimed at preserving sustainable forest resources, and we intend to continue to work with suppliers to achieve that goal.

Our approach to diversity is another important issue. We are also concentrating on initiatives that change the way we work in order to support women in taking more active roles.

Q. Lastly, what are your views regarding corporate governance and returns to shareholders?

Kitajima: We view corporate governance as an important management policy. At our June 2014 general shareholders' meeting, we reduced the number

of members on our Board of Directors from 20 to 18 and increased the number of independent outside directors from one to two. In the future, we intend to enhance our corporate governance so as to build an adequate supervisory framework and continue to employ appropriate monitoring systems in order to support prompt decision-making and business execution.

Of course, returning profits to our shareholders is another important management responsibility. 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 primarily to investment in research and development of new technologies and businesses, capital spending, and strategic alliances and M&As. We believe that these types of investments help build corporate value in the medium and long term, and ultimately help us return profits to shareholders.

Because DNP values *taiwa* (dialogue) with all of our various stakeholders, we disclose appropriate information in a timely fashion and work hard to achieve accountability.

In order to earn the trust of our shareholders and all other stakeholders, the management of DNP will continue to increase DNP's corporate value through our business activities.

