

# Message to Shareholders

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## We will provide new value to help solve society's challenges, mainly in our "four growth areas."

In October 2016, we celebrated the 140th anniversary of DNP's founding.

When it was established in 1876, the Company focused on letterpress printing, which was the state-of-the-art technology of the time. Since then, we have continually expanded our fields of business by applying and developing the printing technologies that are our core strengths. Now, in order to stimulate even more rapid growth amid today's dramatically changing business environment, we are undertaking new changes.

In "DNP Group Vision 2015," we identified "four growth areas" in which to focus our efforts: Knowledge and Communication; Food and Healthcare; Lifestyle and Mobility; and Environment and Energy. We selected these areas as the business arenas in which we will create new value by identifying social challenges in Japan and overseas and applying our expertise in "P&I" (printing and information) to finding solutions for them.

For example, advanced information security, enhancing education of the next generation, safe and reliable food supplies, healthy and comfortable living in various types of dwelling spaces, conservation of the environment and energy resources, respect for diversity, etc. We hope to help bring about a future in which these issues have been resolved to the point that people take these things for granted as "basics." By taking up the challenge of making such a future a reality, we want to continue to be "indispensable" to consumers and businesses.

We intend to further refine and multiply DNP's P&I strengths, and to surge ahead by exercising the comprehensive strength of the DNP Group. We will continue to work hard to earn the trust of all of DNP's shareholders and other stakeholders.

Yoshitoshi Kitajima  
President



## **Q. What was the fiscal term through March 2017 like?**

**Kitajima:** Our corporate philosophy is to “connect individuals and society, and provide new value”—that’s how we build DNP’s corporate value in the medium and long term. This philosophy contains our commitment to taking the initiative to find out what consumers need, and to creating new value that helps solve society’s problems. The business environment is undergoing rapid and significant changes; rather than simply responding to changes, we must work to generate changes ourselves.

Toward that end, DNP has promoted “P&I innovations” that generate innovative new value by making the most of our strengths in printing (P) and information (I) technologies. Also, in order to boost the competitiveness of our operations, the entire DNP Group engaged in structural reforms including reorganization and integration of business units and Group companies.

While we did see government stimulus measures lift employment a bit along with other signs of mild recovery in the Japanese economy, we have yet to see a full recovery given the strong yen, sluggish personal consumption, and a slowdown in overseas economies. Especially in the printing industry, factors like lower unit prices combined with decreased demand for books, magazines and other paper media forced us to remain in a very tough position.

As a result, although net sales from Lifestyle and Industrial Supplies increased in the year ended March 2017 compared to the previous year, sales from the Information Communication and Electronics segments declined, so overall net sales for the term declined 3.1% year on year to 1,401.2 billion yen. Operating income declined 30.9% from a year earlier to 31.4 billion yen, largely due to the impact of the stronger yen on earnings from our Electronics segment and from Imaging Communication, which does photo-related business in North America and elsewhere outside Japan, as well as increased retirement benefit costs resulting from the Bank of Japan’s negative interest rate policy.

On the other hand, we laid the groundwork for building corporate value in the future by making aggressive upfront investments that will allow us to generate new value.

## **Q. How will you achieve greater corporate value in the medium and long terms?**

**Kitajima:** First of all, we will focus on generating value by expanding our business, primarily in our “four growth areas.” In order to achieve that, each business division will exert its comprehensive strengths in order to increase synergetic effects so the entire corporate Group can work together to seek solutions for social challenges. By doing so, we will generate new value.

We will also provide more value to the global market. We believe that the value we create through “P&I innovations” is indispensable not just for people in Japan, but for people all over the world. We will provide new value to the global market by respecting the diversity in different parts of the world and adjusting the formats of our products and services to meet those various needs.

In addition, we will continue to actively increase corporate value by means of all kinds of structural reforms. In order to enhance the profitability of existing and new businesses, we will undertake various structural reforms—including raising efficiency and reducing costs in our business operations and adjusting our business framework and operating locations—and boost the competitiveness of our businesses.

## **Q. What do you mean by generating value primarily in growth areas?**

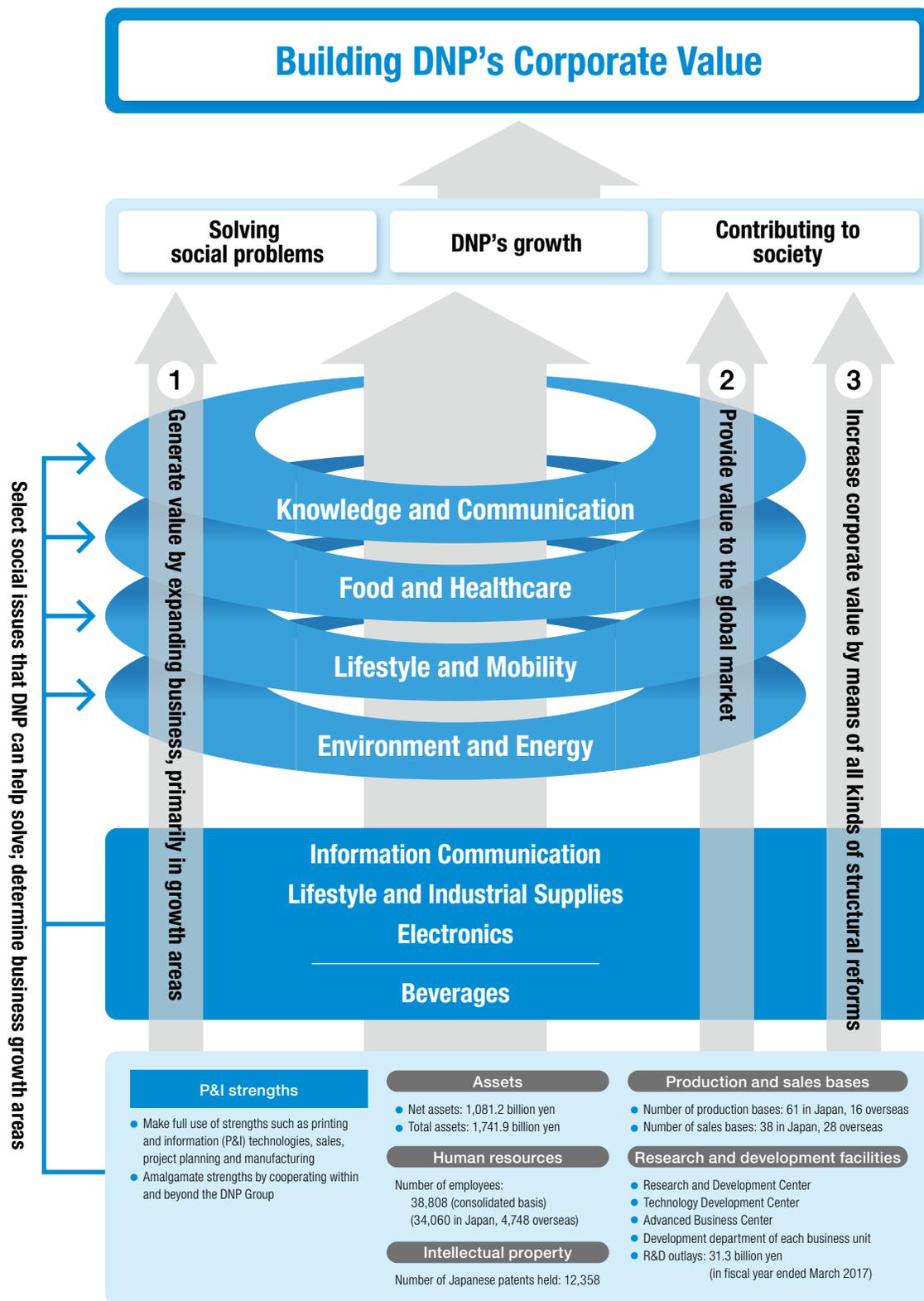
**Kitajima:** There are many kinds of social issues currently in need of solutions. The “Sustainable Development Goals” adopted at the United Nations Sustainable Development Summit in September 2015 lists a number of such issues, and DNP can help solve many of them by leveraging its “P&I” strengths.

By providing society and consumers with new value that leads to the solution of social problems in our four growth areas (Knowledge and Communication; Food and Healthcare; Lifestyle and Mobility; Environment and Energy), we will increase DNP’s own corporate value. Now please allow me to introduce some of our recent initiatives.

# Be indispensable to individuals and society

We will continue to provide “indispensable value” to individuals and society by applying the combined strengths of DNP and our partners to the resolution of social issues that we ourselves have selected as “growth areas.”

- 2 Synopsis of Performance
- 6 Message to Shareholders
- 14 Special Feature
- 30 DNP in Brief
- 40 Segment Information
- 54 How DNP Works to Achieve Sustainable Development
- 72 Financial Section
- 108 Appendix



(As of March 31, 2017)

- In **Knowledge and Communication**, our aims are to support people's lives through active communication and to foster rich and varied culture. In addition to information media and content production, this area also relates to the creation of safe and reliable communication mechanisms supported by advanced security technologies.

Since forming capital and business ties with Nihon Unisys, Ltd. in January 2013, we have been collaborating in various ways, including strengthening the business base from which we offer marketing and other services aimed at finance and distribution companies, jointly developing various marketing platforms, and promoting global expansion. We have been especially successful together in endeavors like constructing settlement platforms using international brand prepaid and debit cards, and electronic money-related systems.

In April 2016, we started collaborating with Cybertrust Japan Co., Ltd., which specializes in electronic certification, in order to enhance our online identity verification services. In September of that year, we also entered into a capital and business alliance with Future Link Network Co., Ltd. (FLN) in order to expand our community-building business by using FLN's community information portal site and local currency points.

- The **Food and Healthcare** area is affected by dramatic demographic changes around the world including, in Japan, a rising average age and falling birth rate. Amid these changes, DNP is developing products and services that support safe, high-quality lifestyles including support for lifelong health maintenance. In addition to providing safe and hygienic packages that people can use with confidence for foods, beverages and pharmaceuticals, etc., we will continue to promote businesses related to a variety of other fields such as agricultural films, regenerative medicine and other life science-related fields. In May 2016, we agreed to a tie-up with SIG Combibloc Group AG, one of the world's leading manufacturers of cartons for food and beverages, and began working to expand business in the Japanese market. Worldwide, some 10,000 kinds of products are packaged using SIG systems. Japanese food and beverage manufacturers have responded very positively to the SIG packaging because it can be made in unusual shapes rarely seen in Japan, which will make it easy to differentiate products on store shelves, and because the cartons can be filled with a wide variety of contents. We hope to start full-scale production in the spring of 2018. We started mass production of "Innovative Barrier (IB) film," a highly transparent film with excellent barrier properties, in 1998. We use it mainly for food packaging, and for a wide range of other applications. We are working to build on these achievements by

promoting the development of new products like film for curveable OLED displays and high barrier films for industrial use.

- Concerning **Lifestyle and Mobility**, we will continue to provide products and services that deliver very comfortable, safe, secure living in a variety of settings including homes, commercial facilities, offices, medical facilities, automobiles and railroad cars.

For the automotive market, for example, in addition to decorative films with the wood grain and other designs that we have long supplied for auto interiors, we have developed new products with excellent functionality. These include "DNP ultra weather-resistant hard-coat transfer film," which improves the weather resistance and wear resistance of resin glass, a lighter-weight alternative to ordinary automotive glass that helps reduce energy consumption by reducing auto body weight, and "DNP adhesive films" that strongly bond together different materials, such as carbon fiber-reinforced plastic with metal. In addition, DNP Tamura Plastic Co., Ltd. has won a large share of the Japanese market for side visors attached to the top edges of automobile side windows. We intend to develop new products by combining DNP Tamura's expertise in resin molding with DNP's strength in decorative technologies and functional films.

- In **Environment and Energy**, we are working to realize a sustainable society that simultaneously supports economic development and preservation of the global environment. We intend to work harder than ever to develop environmentally conscious products and services that will help conserve resources and energy and lead to the preservation of biological diversity. In February 2017, DNP received the 26th Grand Prize for Global Environment Award, Japan Business Federation Chairman's Prize in recognition of achievements like DNP Lighting Film, which conserves energy by effectively reflecting and diffusing sunlight entering a window to brighten an entire room. DNP Lighting Film can be used in various settings including residential, office, commercial or medical facilities and schools, etc. and can be applied during renovation as well as new construction. As a test, DNP Lighting Film was applied to laminated glass used in windows installed on the northern side of a building, where there was little sunlight. The brightness of the room roughly doubled compared to what it was before applying the film<sup>\*1</sup>, and the cost of electricity required for lighting declined by about 13%<sup>\*2</sup>. In energy-related business, DNP already controls a large share of the world market for lithium-ion rechargeable battery components. In addition to enhancing the functionality of our photovoltaic module components, we will work harder to accommodate demand related to smart houses and smart cities.

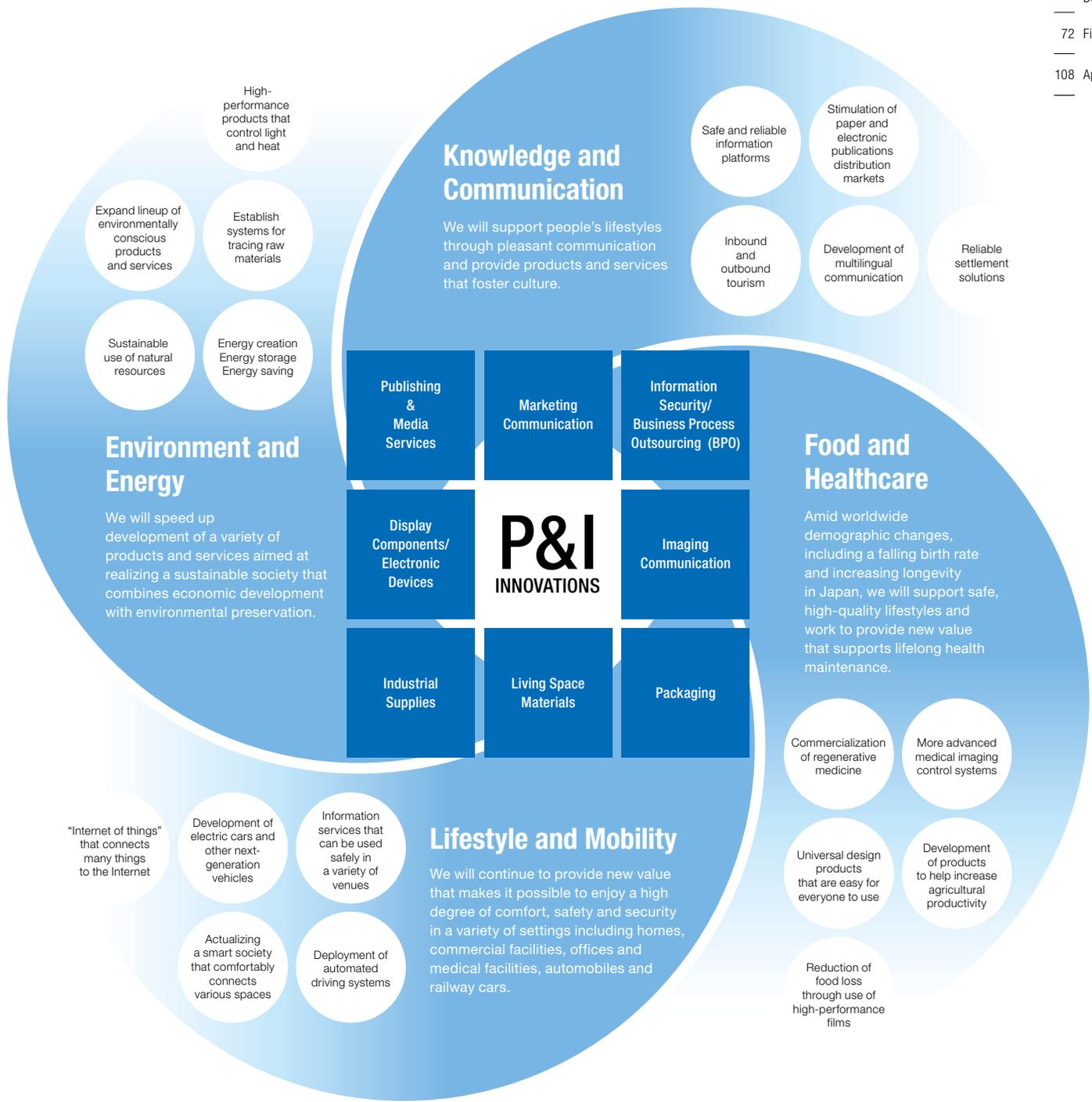
<sup>\*1</sup> Study conducted by DNP: maximum values measured between 9 am and 6 pm on June 5, 2015

<sup>\*2</sup> Study conducted by DNP: measured between 9 am and 6 pm on July 2, 2015

# Making “tomorrow’s basic” a reality by generating new value in our four growth areas

What kinds of social challenges does the world face today? We identified four growth areas by asking ourselves this question. We will continue to make use of the printing and information (P&I) technologies that are DNP’s core strengths in order to create new value that will contribute to solving social challenges in these areas.

- 2 Synopsis of Performance
- 6 Message to Shareholders
- 14 Special Feature
- 30 DNP in Brief
- 40 Segment Information
- 54 How DNP Works to Achieve Sustainable Development
- 72 Financial Section
- 108 Appendix



## **Q. How will you provide value to the global market?**

**Kitajima:** DNP provides the value that it creates not only within Japan, but in a broad variety of locations around the world.

As of the end of March 2017, DNP operated 28 sales bases and 16 manufacturing plants in 15 countries and a region in North America, Europe, Asia and elsewhere. Whenever we branch out overseas, we respond meticulously to the characteristics of each region and the needs of the people who live there.

Let me offer some examples of our overseas operations. We are boosting the competitiveness of our smart card business in Southeast Asia by forming operational and capital alliances with major card manufacturers in Vietnam and Indonesia. In Packaging, we will use our operating bases in Indonesia and Vietnam to expand operations in Thailand, Myanmar and other surrounding countries so that we can better serve global corporate clients. Our Imaging Communication business, which mainly handles photographic printing supplies, also earns a high proportion of its net sales from overseas. In North America, where there is strong demand for photo printing, we are focusing on securing new customers by making the most of our two local manufacturing bases. At our Malaysian plant, too, we will increase production aimed at the photo ID card market.

Our Electronics segment will keep working to further expand sales of metal masks for making OLED displays, a field where we already control the overwhelming majority of the world market, and to collaborate with overseas companies, for example by licensing technologies related to color filters used in liquid crystal displays. In order to respond appropriately to growing demand for semiconductor photomasks in China, we established a joint venture photomask manufacturing and sales company there in partnership with Photronics, Inc. of the U.S. The new company plans to begin mass production in December 2018.

## **Q. It seems that you are also initiating various structural reforms.**

**Kitajima:** We are investing a great deal of effort in various structural reforms aimed at building corporate value by expanding our businesses and reducing costs, etc. We are reviewing our business portfolio from the standpoints of growth potential and profitability, and implementing business structure reforms such as organizational restructuring, consolidation and M&A strategies.

For example, in April 2016 we consolidated multiple business units in charge of marketing and information security-related functions and launched one new business unit that combines all of their strengths. In October of the same year, we merged three Group companies that handle functions like marketing or information media project planning and production, and established DNP Communication Design Co., Ltd. Then in April of 2017, we launched DNP Digital Solutions Co., Ltd. in order to strengthen development and operation of information-related systems. Through solid cooperation between the new business unit and these new companies, we intend to promote integration of marketing and settlement services, bolster the competitiveness of our information and communication technologies and business process outsourcing businesses, and construct new business models.

In addition, we continue to engage in cost structure reforms aimed at improving profitability. For example, we are promoting production innovation initiatives aimed at improving production efficiency by achieving optimal production through the realization of a nationwide, uniformly managed manufacturing framework, and by implementing digital technology-driven “smart factory” ideas.

## **Q. People are looking for activities that emphasize the environment, society, and corporate governance (ESG), aren't they?**

**Kitajima:** Since before ESG became a buzzword, DNP was already actively involved with the environment and society and has always engaged in a variety of corporate activities in parallel with enhancing our corporate governance.

First, regarding the environment, DNP's business activities benefit from nature's abundance in a variety of ways, such as procurement of raw materials from forest resources and the use of water and energy in our manufacturing processes. That's why we are always thinking about how to coexist with the global environment and seek to operate sustainable businesses.



Concerning society, we build trust with our many stakeholders by engaging in honest, good-faith corporate activities. In addition, as I explained earlier, we work to expand our business by solving environmental and other social issues related to our four growth areas.

In regard to governance, we construct and implement systems for making decisions that support appropriate and comprehensive management, for appropriately and promptly conducting business based on those decisions, and for supervising the functions I just mentioned. In June 2016, we determined to make a smaller board of directors in order to speed up management decisions so we can keep pace with the rapidly changing business environment. Accordingly, we reduced the number of directors by six from 18 in the previous year, giving us a total of 12 directors including two independent (outside) directors.

DNP has received a great deal of praise for these types of ideas and initiatives, from general society as well as from investors. For example, DNP has been included in many indices of socially responsible investments, most notably the FTSE4Good Global Index for 17 consecutive years, and the Dow Jones Sustainability Indices (as of July 2017). Selection for these indices is based on information disclosed by the Company through various reports and websites, etc., as well as on independent research. DNP is highly regarded for, among other things, promptly and properly disclosing both financial and nonfinancial information.

## Q. DNP has become an official partner of the Olympic and Paralympic Games Tokyo 2020, hasn't it?

**Kitajima:** We view these Games as important opportunities from a business as well as social standpoint, so we became an official partner\* in October 2016.

For the Olympic Games Tokyo 1964, DNP took charge of printing Games tickets, commemorative stickers, and posters. For the Olympic Winter Games Nagano 1998, we were responsible for issuing accreditation (ID) cards and supported the operations of the Games by providing a variety of products and services.

Based on these experiences, we would like to provide various types of support for the success and smooth operation of the Olympic and Paralympic Games Tokyo 2020. These may include printing services that make use of advanced anti-counterfeiting technologies, by which we can produce Games tickets, accreditation cards, and various kinds of announcements needed to generate excitement for the tournament, as well as operational skills and services. We will also increase cooperation with other official corporate partners.

\* DNP is an Official Partner (Printing Services) of the Olympic and Paralympic Games Tokyo 2020.

## Q. What are your thoughts regarding shareholder returns?

**Kitajima:** Our basic policy is to pay stable dividends while taking into consideration business performance, dividend payout ratio, and other relevant factors.

At the same time, we support future business development by using retained earnings to enhance our financial constitution and strengthen our management base. We allocate retained earnings for such purposes as investment in research and development of new technologies and new businesses, capital investment, and strategic alliances, mergers and/or acquisitions, etc., that enable us to actively create new businesses. We also keep our eyes on our funding requirements and market trends as we consider whether to repurchase treasury shares as a means of returning profits to shareholders.

Historically, we increased our annual dividend payout each year for six consecutive years, from 18 yen in the fiscal term ended March 2003 to 36 yen in the term ended March 2008. In the fiscal year ended March 2009, the year in which financial crisis followed the collapse of Lehman Brothers Holdings Inc., we reduced the payout by 4 yen to 32 yen, and we have maintained our annual dividend payout at 32 yen for nine consecutive years through the year ended March 2017.

DNP repurchased treasury shares for seven consecutive years from the fiscal term ended March 2003 until the term ended March 2009. We also did so in the fiscal terms ended March 2016 and 2017, resulting in the retiring of a total of 141.31 million shares, or 18.6% of the total number of issued shares. In the fiscal year through March 2018 we plan to continue this trend and retire up to 15 million shares worth up to 15 billion yen.

DNP positions the return of profits to our shareholders as an important management responsibility, and I hope that shareholders will understand the Company's policies and perspective in this regard.

Going forward, we will be grateful for continued guidance and cooperation from all of our shareholders.

—	2	Synopsis of Performance
→	6	Message to Shareholders
—	14	Special Feature
—	30	DNP in Brief
—	40	Segment Information
—	54	How DNP Works to Achieve Sustainable Development
—	72	Financial Section
—	108	Appendix