Reflecting on the Three-Year Plan (FY2020-FY2022)

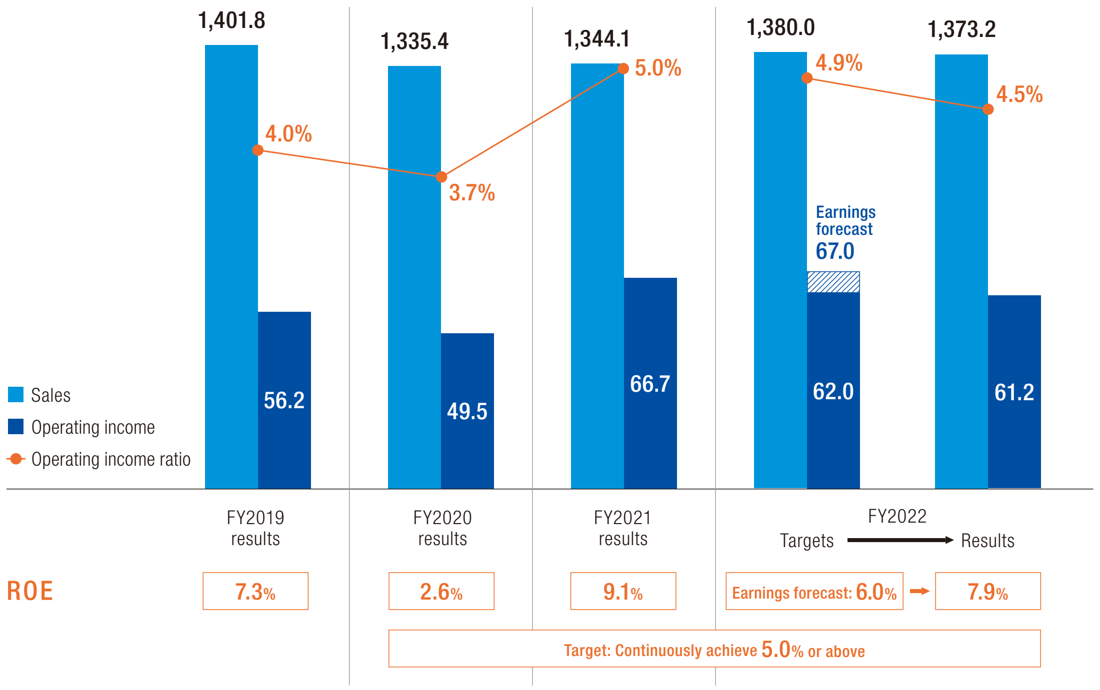
Anticipating Change to Create New Value in Challenging Times

The Medium-term Management Plan spanning from fiscal 2020 to fiscal 2022 coincided with a period greatly impacted by the COVID-19 pandemic. Amid rapidly changing circumstances, we were compelled to respond promptly and effectively, and we focused on high-profitability and market-growth potential businesses, striving to expand our sales and profits.

In particular, during fiscal 2021, we achieved a 9.1% return on equity (ROE) thanks to improvements in the operating income margin. However, in 2022, geopolitical risks, such as the Ukraine conflict, emerged, leading to disruptions in the supply chain and causing raw material and energy prices to climb. As a result, while the ROE for the fiscal year ended March 2023 exceeded forecasts at 7.9%, operating income remained at 61.2 billion yen, down 8.3% year on year.

Management targets

(¥ billions)



(Each fiscal year begins on April 1 and ends on March 31 of the following year)

In fiscal 2022, performance exceeded expectations in the imaging communication business, which benefited from an upward trend in the overseas photo printing market; metal masks for manufacturing organic light-emitting diode displays (OLEDs), which saw increased adoption in smartphones and other devices; and the semiconductors business, driven by robust demand from customers for product development.

Secure information products such as smart cards and Business Process Outsourcing (BPO), and industrial high-performance materials such as photovoltaic module components were mostly in line with initial forecasts.

On the other hand, battery pouches for lithium batteries, which were affected by the global slump in automobile production, mobility interior and exterior materials, and optical film-related businesses, impacted by extraordinary demand for IT equipment shown during the COVID-19 pandemic, fell short of initial forecasts.

The impact of raw material and energy price hikes was also significant, and we were not able to compensate for the full amount by passing on prices. As for operating income by segment, Information Communication and Lifestyle and Industrial Supplies fell short of forecasts, while Electronics was basically in line with expectations.

Create value primarily in growth areas

	(¥ billions)	FY2019 results	FY2022 earnings forecasts	FY2022 results	Overview of growth-driving and stable Businesses	
Information Communication	Segment sales	773.0	710.0 →	720.2	Imaging communication	Strong sales of photographic materials and services in Europe and Asia, in addition to the mainstay U.S. market
	Segment operating income	30.4	29.0 →	26.7	Secure information	Smart cards used by financial institutions, "My Number" government issued ID cards, BPO, etc. increased
Lifestyle and Industrial Supplies	Segment sales	391.3	408.0 →	400.2	Battery pouches	In addition to battery pouches for automotive use being affected by the reduction in automotive production until around the middle of the fiscal year, device demand also decreased for IT
					Industrial high-performance materials	Demand for photovoltaic module components increased
	Segment operating income	11.1	12.0 →	7.3	Mobility interior and exterior materials	Although reduced automotive production had an impact until the middle of the fiscal year, there was a recovery in the second half
Electronics	Segment sales	186.6	212.0 →	203.5	Optical films	A global slump in consumption and inventory adjustment throughout the entire supply chain had an impact
					Metal masks	The increase in the rate of use of OLED displays in smartphones, etc. contributed
	Segment operating income	34.1	47.0 →	46.9	Semiconductors	Although the market was seen to slow down from the middle of the fiscal year, demand for product development by client companies was steady

* The arrows indicate comparisons with targets

DNP has continued to undertake all kinds of structural reforms to further expand our corporate value.

For example, we have decided to expand domestic and overseas production lines for battery pouches, domestic production lines for barrier films and eco-friendly packaging materials, and production lines for large-size metal masks, which are scheduled to start operation in the first half of fiscal 2024 and ultra-wide surface materials for optical films, which are scheduled to start operation in the first half of fiscal 2025. Our goal is to further expand business. On the other hand, we proceeded as planned with the downsizing of our paper media production bases in Japan and overseas, the integration of bases in the Kansai region of our packaging business, and the closure and sale of our Himeji plant for color filters. These moves were in response to persistently challenging businesses.

We have also implemented a variety of measures to expand our value, particularly in our focus businesses, including mergers and acquisitions (M&A), capital and business alliances and the launch of operating companies.

Increase value using all available restructuring approaches

	Reorganization of operating bases and business downsizing	Expansion measures	
Information Communication	**Downsizing paper media production bases** • Closure and sale of overseas site (Singapore) • Consolidation of domestic manufacturing sites (closure of Akabane area in Tokyo, etc.) • Consolidation of functions of preprocessing divisions (pre-press)	**Expanding data distribution-related business** • Establishment of NTT EDX **Strengthening of BPO service business** • Establishment of DNP CoArise	**Expanding the imaging communication business** • Conversion of Sharing Box into a Group company • Acquisition of Color Vision International **Entry into XR communication business** • Promotion of external collaboration and investment
Lifestyle and Industrial Supplies	**Reviewing low value-added products and restructuring business locations** • Integration of sites in the packaging-related business (Kansai area) (Closure of Uzumasa Plant in Kyoto, consolidation into Kyotanabe Plant)	**Expanding production lines for barrier films, eco-friendly packaging materials, etc.** • Installation of barrier film production line at Tobata Plant (Fukuoka Prefecture) **Expanding production lines for lithium-ion battery pouches** • Installation of production line at Tsuruse Plant (Saitama Prefecture) • Installation of post-process line in Europe (Denmark Plant), with operation scheduled to start in FY2023 • Consider planning the strengthening of production capacity inside and outside Japan including Europe and the US	
Electronics	**Downsizing color filter business** • Closure and sale of Himeji Plant (Hyogo Prefecture)	**Expand optical film production lines** • Installation of new large metal mask production line at Kurosaki Plant (Fukuoka Prefecture), with operation scheduled to start in the first half of FY2024 • Installation of ultra-wide surfacing material production line at Mihara West Plant (Hiroshima Prefecture), with operation scheduled to start in the first half of FY2025	**Investing in electronic devices business** • Increase of capital investment in photomasks and lead frames • Capital and operating alliance with SCIVAX in nano-imprinting

We have also continued to focus on strengthening business infrastructure underpinning growth.

For example, in terms of financial capital, before Japan's Corporate Governance Code was applied in 2015, there were 269 strategic shareholdings at the end of fiscal 2014, but by the end of fiscal 2022, there were 111, a reduction of nearly 60%.

In the non-financial capital related area, we have set a goal of reducing greenhouse gas (GHG) emissions by 40% in 2030 compared to 2015 levels in order to be carbon neutral by 2050, and already achieved a 36.5% reduction by the end of fiscal 2022. With regard to diversity and inclusion, which leverages the diversity of our employees as one of our strengths, we have increased the percentage of female managers from 6.6% to 8.4% and the percentage of male employees taking childcare leave from 54.3% to 83.6% in the past three years.

Our efforts are highly regarded by society. We are the only company in the industry to be selected as a component of all six environmental, social and governance (ESG) investments made by the Government Pension Investment Fund (GPIF) and have been included in the FTSE4Good, the world's most prestigious socially responsible investment index, for 23 consecutive years (as of July 2023). In recognition of our efforts to combat climate change, we were certified as an "A List Company" by CDP, and in recognition of our supplier engagement efforts, we have been selected for the fourth consecutive year to the highest-rated Leader Board in CDP's Supplier Engagement Assessment.

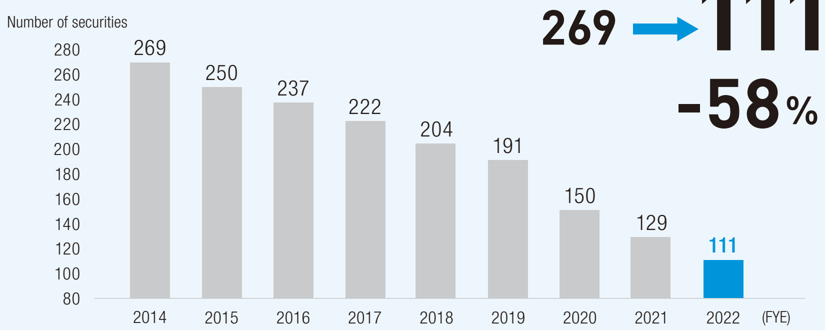
Strengthen business infrastructure to support growth

Reducing strategic shareholdings

Listed stockholdings (2014 → end of FY2022)

269 → 111

-58%



Environmental initiatives

GHG emissions (2015 → end of FY2022)

-36.5% 1,200,000 → 763,000 tons

D&I promotion

Percentage of female managers (2020 → end of FY2022)

6.6 → 8.4%

Percentage of males taking childcare leave (2020 → end of FY2022)

54.3 → 83.6%

Acquisition of external evaluations (as of July 2023)

Selection in 6 GPIF indexes (DNP only one in the printing industry)

Selected in FTSE4Good (23 years in succession)

CDP Climate Change A List

Medium-term Management Plan (FY2023-2025)

Accelerating Value Creation through the Development of a Strong Business Portfolio

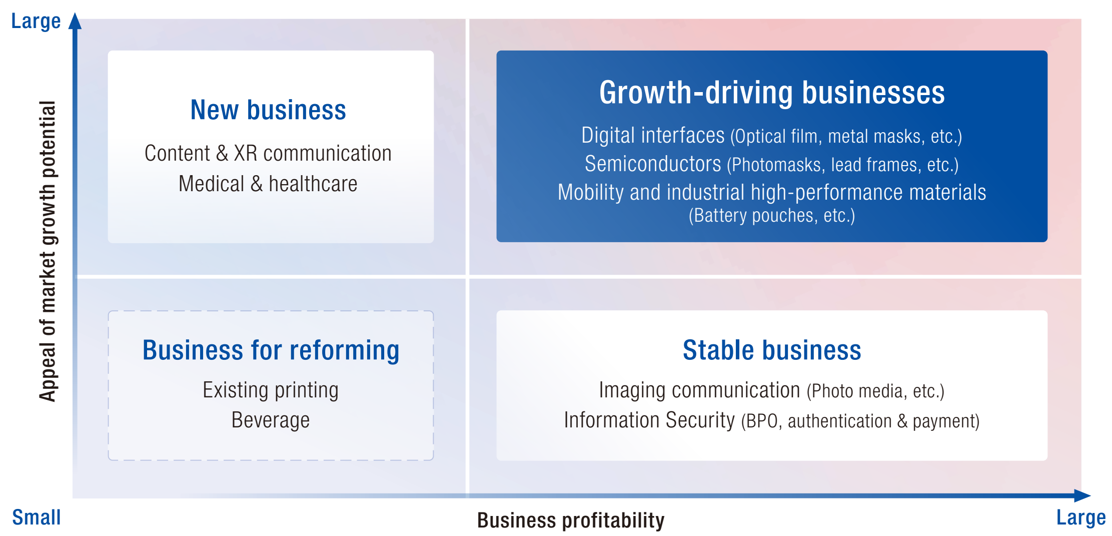
Mitsuru Tsuchiya, Senior Executive Corporate Officer

We, the DNP Group, are engaged in business activities to create a better future based on our corporate philosophy and in line with our Basic Management Policy. Within this context, our Medium-term Management Plan for fiscal 2023 to fiscal 2025 places a strong emphasis on building a business portfolio that can leverage our strengths over the medium to long term, as a major pillar of our Business Strategy.

In this renewed approach, we have restructured DNP's businesses into four categories: "growth-driving businesses," "new business," "stable business" and "business for reforming," based on the two axes of growth potential/attractiveness of the market, and business profitability. By implementing optimal strategies for each of these business areas, we aim to enhance the Group's corporate value.

Figure 1: Business Strategy: Medium- to Long-term business portfolio

We will promote concentrated investment and business structure transformation in focus business areas made up of growth-driving and new businesses, and aim to generate further profits from our business activities. We also execute the No.1 strategy through the evolution and cultivation of core technologies, M&A and co-creation with partners.



As of the beginning of fiscal 2023, we reorganized our business segments to clarify business domains and strategies and to accelerate the execution of targeted initiatives. The former Information Communication segment has been renamed the Smart Communication segment and the Lifestyle and Industrial Supplies segment has been renamed the Life & Healthcare segment. In addition, the Beverages business has been transferred to the Life & Healthcare segment, enhancing its contribution to comfortable living. As part of this restructuring, the Beverages segment itself has been discontinued. Figure 3 illustrates the relationship between these newly configured business segments (Figure 2) and our overall business portfolio.

Figure 2: Business segment reorganization and renaming (from the beginning of FY2023)

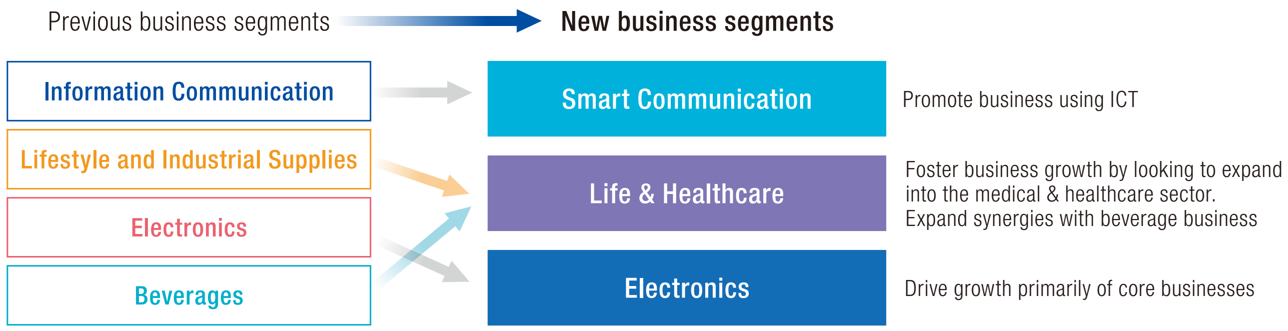
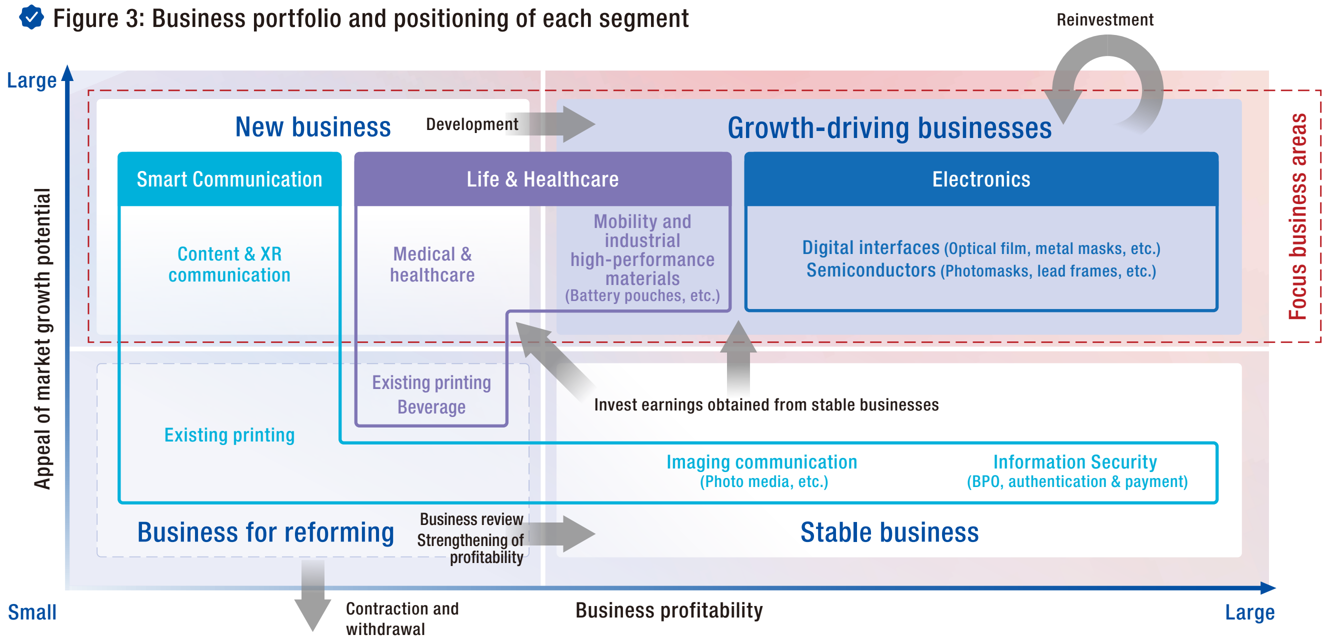


Figure 3: Business portfolio and positioning of each segment



Promote concentrated investment and business structure transformation into focus business areas made up of growth-driving businesses and new business with the aim of building a business portfolio resilient to changes in the business environment

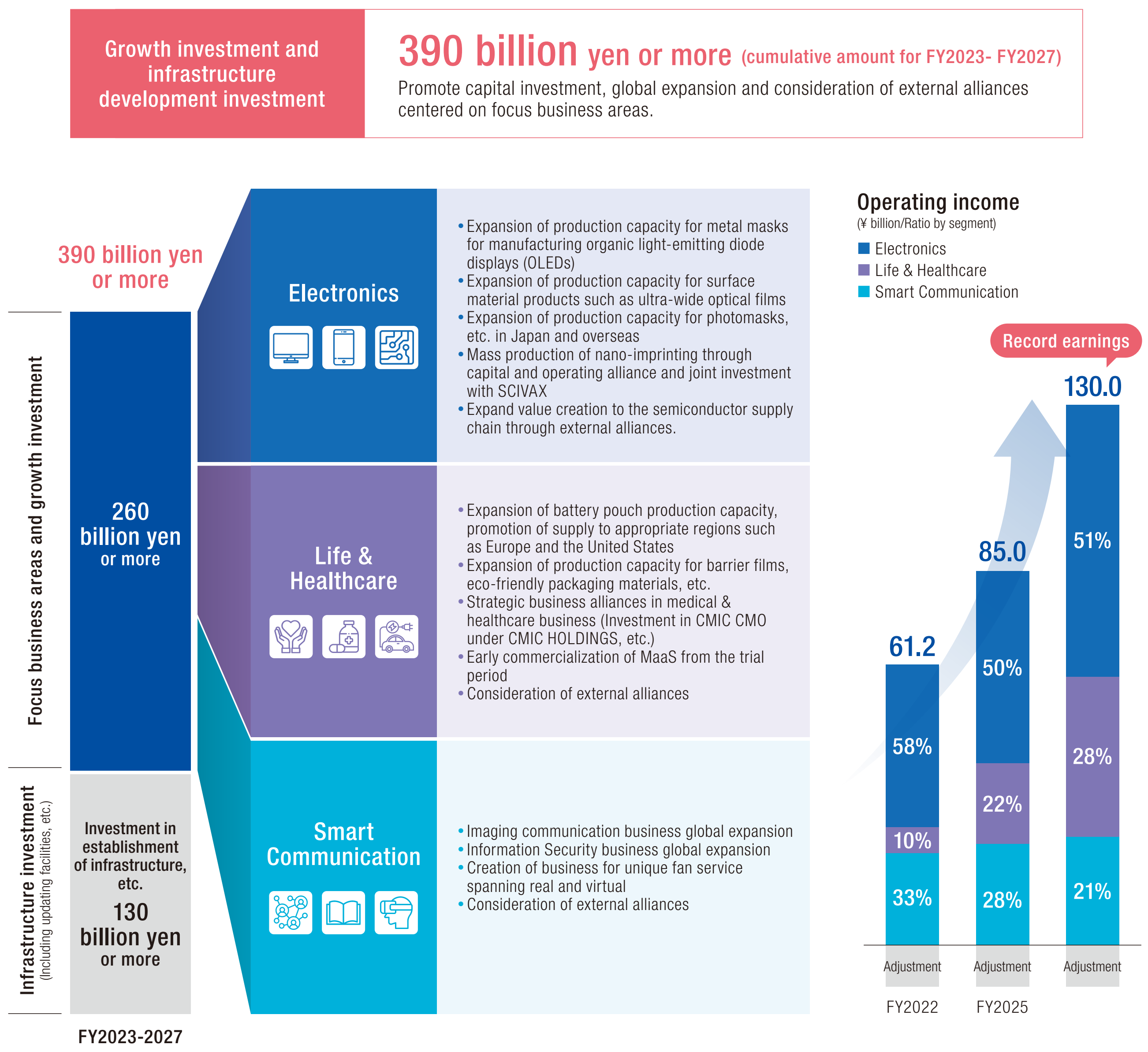
We have positioned three businesses within the growth-driving businesses in the upper right quadrant of Figure 3. The digital interface business encompasses products such as optical film for displays, boasting the world's top market share and metal masks for manufacturing OLEDs. The semiconductor business includes items such as photomasks for semiconductor production and lead frames, both part of the Electronics segment. Additionally, in the Life & Healthcare segment, the mobility and industrial high-performance materials business is also positioned as a growth-driving business. We will further expand this business, particularly focusing on battery pouches for lithium-ion batteries, which have the world's top market share in applications for mobile devices and electric vehicles (EVs).

In the medical & healthcare business of the Life & Healthcare segment, one of the upper-left quadrant showing new businesses, we have plans to expand the pharmaceutical support business, which includes active pharmaceutical ingredient manufacturing, formulation and medical packaging. Similarly, we will focus on the smart healthcare business, including image diagnostics and online healthcare services, as part of the medical & healthcare business in the Life & Healthcare segment. In addition, in the Smart Communication segment, the content & XR communication business will leverage connections with diverse intellectual property (IP) holders worldwide and make efforts in digital transformation (DX) utilizing artificial intelligence (AI) and advanced information security technologies to contribute to the evolution of the information society. These growth-driving businesses and new businesses together form the focus business areas in our new Mid-term Management Plan.

The stable businesses featured in the lower-right quadrant are critical in that they consistently generate cash flows over an extended period. These encompass the global deployment of products and services related to photo printing in the imaging communication business, as well as Information Security businesses in such areas as Business Process Outsourcing (BPO), smart card services and authentication and payment services. We will continue to invest in these stable businesses with a focus on enhancing efficiency, while carefully balancing capital allocation and cash generation.

The quadrant dedicated to business reforming in the lower left primarily includes the existing printing and beverage businesses, which are currently less profitable, primarily within the Smart Communication and Life & Healthcare segments. We are actively working on initiatives to boost profitability, which includes adapting supply capabilities and optimizing facilities in response to evolving market conditions. In addition, we will leverage products and services with unique strengths, such as the aseptic filling systems for PET bottles and products for interior and exterior decoration for residential and non-residential use, both of which command leading share in Japan. These will be restructured through globalization efforts and boosting synergies with other businesses.

Figure 4: Overview of business investment and operating income targets by segment



We plan to invest 390 billion yen or more over five years from fiscal 2023 to fiscal 2027 to advance our business strategy. Of this, we will invest 260 billion yen or more in the five businesses designated as focus business areas to drive growth. In addition, we will expand the production capacity of our major products, which have achieved top market shares both domestically and internationally. We will also promote alliances with diverse external partners and enhance the global expansion of each business, accelerating our growth. Further, we will invest 130 billion yen or more in building and maintaining our business foundations, including updating production facilities. For details on our key initiatives, please refer to Figure 4.

Regarding the balance among the three segments, as shown in the graph on the right in Figure 4, we anticipate approximately 50% of operating income to come from Electronics, 30% from Life & Healthcare and 20% from Smart Communication. Excluding adjustments, such as collaborative projects between segments, we aim to achieve our target operating income of 85 billion yen in fiscal 2025 and the subsequent goal of 130 billion yen or more.

Figure 5: Reinforce business foundations through business structure reform

	Strengthening measures	Expansion measures
Smart Communication	Rationalization of paper media business	Expansion of photo imaging business into emerging markets Expansion of authentication security business Expansion of BPO service business Global expansion of content & XR communication business
Life & Healthcare	Reviewing low value-added products and restructuring business locations • Reorganization of locations in packaging-related business	Expansion of production capacity for lithium-ion battery pouches Expansion of production capacity for barrier films, eco-friendly packaging materials, etc. Global collaboration for barrier films Maximization of medical & healthcare-related synergies
Electronics	Automation and productivity improvement	Expansion of production capacity for metal masks for manufacturing organic light-emitting diode displays (OLEDs) Expansion of production capacity for surface material products such as optical films Expansion of production capacity for photomasks, etc. Expansion of value provision to semiconductor supply chain

The DNP Group is committed to strengthening our business foundation for creating new value, we achieve this through the continued advancement of both our financial and non-financial strategies, alongside various structural reforms within the scope of our business strategy. Our concrete actions for sustainable growth include optimizing our locations and systems in alignment with market trends and business scale across all segments and reallocating resources from contracting divisions to areas with growth potential.

Financial Strategy

Medium-term Management Plan (FY2023-2025)

Generate capital for growth investments and strengthen financial foundations through shareholder returns

Masafumi Kuroyanagi, Managing Director

To ensure a better future and sustain long-term value creation, DNP is committed to continuously strengthening the management foundations underpinning our business operations. We strive to practice integrated management that combines the strengths of financial and non-financial capital to achieve this goal. Specifically, our financial strategy is articulated within our basic management policy as follows (see Figure 1).

Figure 1: Financial Strategy presented as a Basic Management Policy

Financial Strategy

- Create funding for investment in growth through cash flow generated through business activities, in addition to maximization of efficiency of funds including acceleration of the reduction of assets held.
- Plan the largest acquisition of treasury shares in DNP's history with the aim of improving capital efficiency.
- Seek to further enhance shareholder returns conscious of indicators such as earnings per share (EPS) while maintaining stable finances for sustained corporate activity.

Through our financial strategy, we aim to generate 750 billion yen or more in cash over the five-year period from fiscal 2023 to fiscal 2027. Subsequently, we intend to distribute this cash strategically to facilitate ongoing business expansion and enhance shareholder returns (see Figures 2 and 3).

We aim to generate operating cash flow of 440 billion yen or more, serving as the foundation for growth investments. We will actively invest in focus business areas and enhance efficiency in existing businesses to achieve this goal. We maintain an ongoing assessment of our strategic shareholdings, considering factors such as their overall impact, trading performance and prospects. Our strategy entails executing the required divestments of strategic shareholdings to generate 220 billion yen in cash and reduce their share to below 10% of net assets. In addition, we will accelerate the divestment of idle assets and explore appropriate funding methods, including the utilization of interest-bearing debt, to optimize financial leverage and funding efficiency, ultimately leading to the generation of 90 billion yen or more in cash.

Regarding strategic shareholdings, we conducted a tender offer for a portion of our common shares in Recruit Holdings Co., Ltd., resulting in the sale of a stake valued at 60.8 billion yen. This achievement signifies that we have already made substantial progress, nearing 30% of our goal to sell 220 billion yen worth of strategic shareholdings over the next five years.

As part of our cash allocation strategy, we plan to invest 390 billion yen or more of cash generated through measures such as maximizing fund efficiency over the course of five years in business growth and infrastructure development. At least 260 billion yen of this will be allocated specifically to our focus business areas, further accelerating our expansion, and securing a further competitive edge in global markets. Additionally, in line with our cash allocation strategy, we will actively pursue shareholder returns.

The DNP Group believes that to enhance the sustainability of its corporate activities and provide long-term value to society and individuals, it is important to maintain financial stability while directing cash towards growth investments and actively distributing it to shareholders.

Figure 2: Financial Strategy: Cash allocation

5 years from FY2023 to FY2027 Appropriate allocation of cash generated to further business growth and shareholder returns

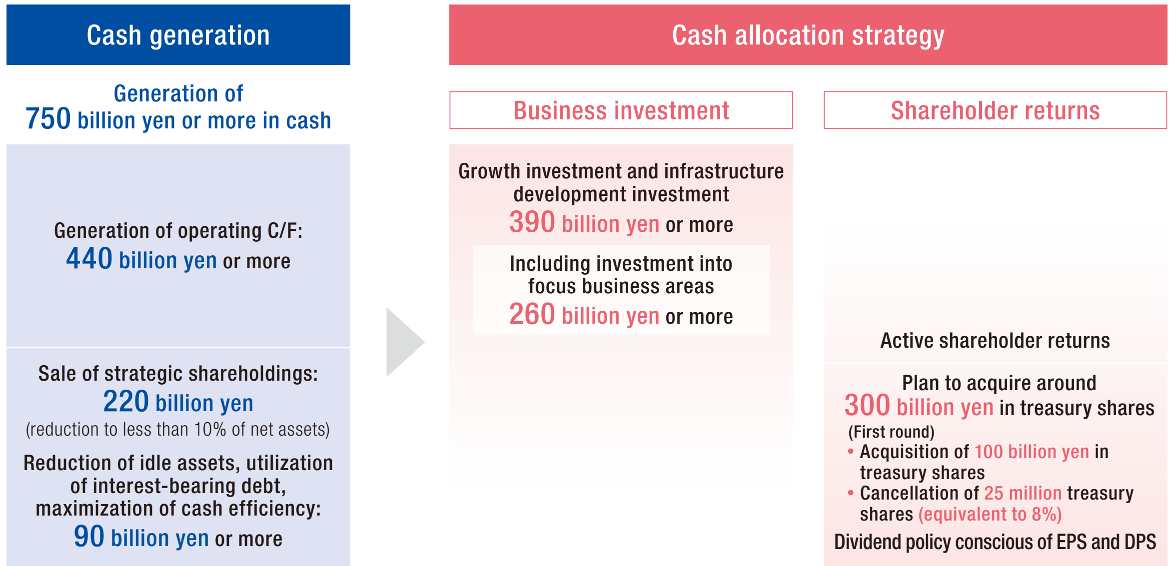


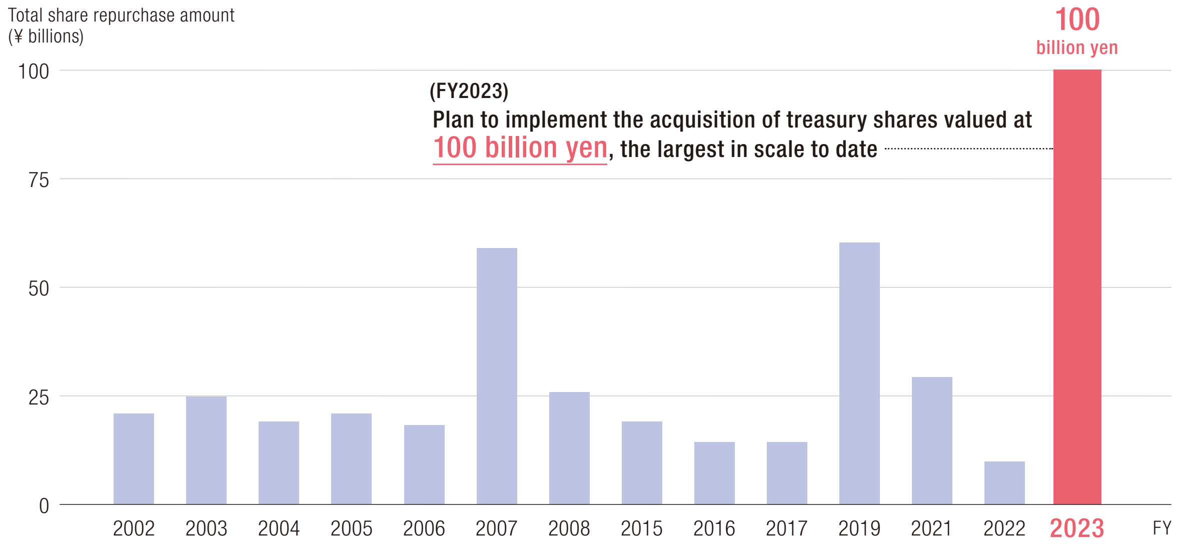
Figure 3: Financial Strategy: Priority measures

Cash generation	Stable generation of operating CF	• Create 440 billion yen or more in operating cash flow over five years providing the source for growth investment by promoting concentrated investment in focus business areas and promoting business structure reform.
	Reduction of strategic shareholdings and idle assets	• Generate 220 billion yen in cash through the sale of strategic shareholdings and reduce them to less than 10% of net assets. • Improve asset efficiency by reducing idle assets.
	Utilization of financial leverage	• Consider appropriate funding methods including the utilization of interest-bearing debt.
Cash allocation strategy	Investment in focus business areas and investment aimed at the creation of management base	• Invest 390 billion yen or more over 5 years in business investment using cash generated through the maximization of capital efficiency. Of this, invest 260 billion yen or more in focus business areas.
	Reduction of equity capital aimed at creation of optimal capital structure	• Plan to acquire a total of around 300 billion yen in treasury shares. Implement the first round of acquisition of treasury shares valued at 100 billion yen. • Cancel 25 million treasury shares (equivalent to 8%) • Consider treasury shares held, including cancellation and utilization in M&A based on future conditions.
	Balancing of financial stability and optimal capital allocation	• Stably maintain finances for sustained corporate activity, and actively allocate cash generated through maximization of capital efficiency to shareholder returns. • Execute shareholder return policy, taking into consideration earnings per share (EPS) and dividend per share (DPS).

Based on these considerations, one of the measures DNP is planning to achieve its earnings and capital structure goals is to acquire approximately 300 billion yen worth of treasury shares over the five-year period from fiscal 2023 to fiscal 2027. As the first round of this plan, we will acquire treasury shares valued at 100 billion yen by March 2024, over the course of about one year. As shown in Figure 4, we continuously strive to maximize shareholder value and regularly carry out share repurchases, with this round being the largest in scale to date.

In addition to the share acquisition program, we also cancelled 25 million shares, equivalent to around 8% of the issued shares, as of March 20, 2023. Regarding our holdings of treasury shares, we will continue to evaluate options such as further cancellations or potential utilization for activities such as M&A, taking into consideration both domestic and international market conditions and the overall status of DNP's business.

Figure 4: Acquisitions of treasury shares (FY2002-2023*)



(*Each fiscal year begins on April 1 and ends on March 31 of the following year)

In our shareholder return policy, we intend to actively distribute profits in consideration of earnings per share (EPS) and dividends per share (DPS).

We will continue to diligently execute the key initiatives of our financial strategy while firmly making growth investments to consistently create new value.